MINNESOTA HOUSING FINANCE AGENCY
Annual Financial Report as of and for the year ended June 30, 2004

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MINNESOTA HOUSING FINANCE AGENCY
Commissioner's Report

As the 2003 Financial Report was prepared I had just assumed the duties of Commissioner. In my report I stated that "as a result of the work and commitment of my predecessors, the Agency's board, the senior leadership and staff of the Agency, and the state of Minnesota's continued commitment to housing issues, I am confident that the Agency will thrive in this new Administration and continue to deliver on its mission for the state of Minnesota." My confidence was well founded.

The Agency experienced another year of solid financial performance, we continued to deliver housing programs to meet the needs of low- and moderate-income Minnesotans, and we have adopted and are implementing an ambitious strategic plan that will allow Minnesota to continue to be a national leader in meeting the housing needs of its low- and moderate-income citizens.

Financially, the Agency continued to increase the net assets of its bond funds and General Reserve, in spite of the challenges of an historically low interest rate environment and accelerated loan prepayments. Net assets of both the State and Federal Appropriated funds decreased as expected due to spending down appropriations accumulated from prior years.

There was continued strong demand for the Agency's programs. In the last program year (October 1, 2002 to September 30, 2003), the Agency continued its efforts to provide decent, safe, and affordable housing by serving over 57,000 households; 51% of the households served, excluding those living in Section 8 project-based housing, had annual incomes under $20,000. The Agency provided more than $465 million of housing assistance in three main areas: $162 million for homeownership programs, primarily in the form of first mortgages and entry cost assistance, $45 million for home improvement programs, and $258 million for rental housing programs, including financing of new construction, rehabilitation, preservation of federal assistance, and rental assistance. The increase over the previous year of assistance provided for rental housing programs is largely due to two factors: a doubling of the amount of first mortgage financing provided by the Agency and an increase in the amount of the housing assistance payments made for properties in the Agency's portfolio as well as the HUD-financed portfolio. The decrease in housing assistance for homeownership programs over the previous year is attributable primarily to an extremely low interest rate environment and low purchase price limits, which were subsequently raised.

As of the end of the last fiscal year, the Agency oversaw a portfolio of more than 22,000 first mortgage and deferred loans for homeownership, 15,000 second mortgage loans for home improvement and 1,200 first mortgage and deferred loans for rental housing as well as administering the federal tax credit program.

In February 2004 the Agency finalized a strategic plan that is intended to guide our work through 2007. The plan was the result of input from Agency stakeholders throughout the state, Governor Pawlenty, the Agency Board, senior leadership and staff. The plan was also informed by analyses of various housing and community development data and trends, including the "Next Decade of Housing in Minnesota" prepared by BBC Research & Consulting. Grounded in the values of stewardship and the relentless pursuit of results, the plan sets fourth five strategic goals:

- End long-term homelessness;
- Increase minority homeownership;
- Preserve strategically the existing affordable housing stock;
- Increase housing choices for low- and moderate-income workers; and
- Establish the MHFA as a housing partner of choice.

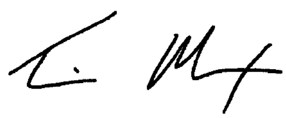
MINNESOTA HOUSING FINANCE AGENCY
Commissioner's Report (continued)

We are developing more specific business or implementation plans for each goal. A business plan to end long-term homelessness was completed in March 2004, and a business plan to increase homeownership in Minnesota's emerging markets will be forthcoming in March 2005. In addition, specific initiatives, such as implementation of the Agency's information technology plan, are being pursued to maintain and enhance the Agency's organizational infrastructure and core housing programs. In short, we have our plan, are working the plan, and will be accountable for results.

As we work our plan, we are mindful of the continued challenges to produce and preserve affordable housing including federal actions on the Section 8 Housing Choice Voucher Program, the long-term viability of the mortgage revenue bond program under the current tax code, and continued federal and state fiscal uncertainty.

The Agency will continue to provide leadership at the state and national level to confront these and similar challenges.

We begin the next fiscal year with a compelling mission, a sound plan, and with the financial and organizational capacity to execute. I look forward to reporting to you on another successful year in August of 2005.



Timothy E. Marx, Commissioner
Minnesota Housing Finance Agency
August 23, 2004

Independent Auditors' Report

To the Members of the
Minnesota Housing Finance Agency

We have audited the accompanying basic financial statements of the business-type activities and each major fund (General Reserve, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated) of the Minnesota Housing Finance Agency (the "Agency"), a component of the State of Minnesota, as of and for the year ended June 30, 2004, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and each major fund (General Reserve, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated) of the Agency as of June 30, 2004, and the respective changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying required supplementary information, such as management's discussion and analysis on pages 6 through 17, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Agency's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The accompanying supplementary information, such as the introductory section and the supplemental information section, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This supplementary information is the responsibility of the Agency's management. The accompanying supplementary information, such as the introductory section and the supplemental information section, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Deloitte + Touche LLP

Minneapolis, Minnesota
August 23, 2004

MINNESOTA HOUSING FINANCE AGENCY
Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion should be read in conjunction with the financial statements and notes thereto.

Introduction

The Minnesota Housing Finance Agency (MHFA or the Agency) was created in 1971 by an Act of the Minnesota legislature. It was established to facilitate the construction and rehabilitation of housing in Minnesota for families of low- and moderate-income by providing for mortgage loans, development loans, and technical assistance to qualified housing sponsors to be used for construction and rehabilitation of housing. MHFA is a component unit of the State of Minnesota and receives appropriations from the state legislature, substantially all of which are used to make loans or grants under specified non-bond-financed programs. MHFA also receives funds appropriated by the federal government for similar purposes.

MHFA is authorized to issue bonds and other obligations to fulfill its corporate purposes up to a total outstanding amount of $3.0 billion. The bonds and other obligations by law are not a debt of the State of Minnesota or any political subdivision thereof.

MHFA operates two program divisions — Multifamily and Minnesota Homes — which offer housing programs with funding from the sale of tax-exempt and taxable bonds, state and federal appropriations, allocation of the Federal Low Income Tax Credit, Minnesota's Housing Trust Fund and MHFA's endowment funds and Alternative Loan Fund.

The members of MHFA (hereinafter referred to as the Board) consist of six members appointed at large by the Governor and one ex-officio member (the State Auditor).

Discussion of Financial Statements

The financial section consists of three parts — independent auditors' report, management's discussion and analysis (this section), and the basic financial statements. The basic financial statements include two kinds of statements that present different views of MHFA:

- The first two statements are Agency-wide financial statements that provide information about MHFA's overall financial position and results of operations. These statements, which are presented on the accrual basis, consist of the Statement of Net Assets and the Statement of Activities. Significant interfund transactions have been eliminated within the Agency-wide statements. Assets and revenues of the separate funds that comprise the Agency-wide financial statements are generally restricted as to use and the reader should not assume they may be used in any aggregate manner.
- The remaining statements are fund financial statements of MHFA's six proprietary funds, which are also presented on the accrual basis because of the similarity of their operations to that of business activities.
- The financial statements also include "Notes to Financial Statements" which provide more detailed explanations of certain information contained in the Agency-wide and fund financial statements.
- Additional supplementary information is presented following the Notes to Financial Statements for certain funds of MHFA, which have been established under the bond resolutions under which MHFA borrows funds for its programs. These funds consist of General Reserve and the bond funds, which are Rental Housing, Residential Housing Finance, and Single Family.

The basic financial statements also include comparative totals as of and for the year ended June 30, 2003. Although not required, these comparative totals are intended to facilitate an enhanced understanding of MHFA's financial position and results of operations for the current fiscal year in comparison to the prior fiscal year.

Discussion of Individual Funds

General Reserve

The purposes of General Reserve are to maintain sufficient cash for MHFA operations, to hold escrowed funds and to maintain the Housing Endowment Fund (also referred to as Pool 1). On the Statement of Revenues and Expenses for General Reserve, only the costs of administering MHFA programs are captured. The fees earned are generally related to the administration of the federal housing tax credit program and contract administration of the Section 8 program for developments not financed by MHFA.

Rental Housing

The majority of the loans presently held in Rental Housing receive Section 8 payments under contracts that are for substantially the same length of time as the mortgage loans.

Inherent risks remain in these portfolios, especially in the multifamily developments without project-based tenant subsidies. Maintaining asset quality remains a high priority for MHFA, so this portfolio continues to receive a significant amount of MHFA staff attention.

All of MHFA's new bond-financed multifamily loans are financed in Rental Housing. A portion of MHFA's Alternative Loan Fund is also available to finance multifamily developments.

Residential Housing Finance

Included within Residential Housing Finance are the bonds issued and outstanding under the resolution, the Bond Restricted Home Improvement, Homeownership, and Multifamily Endowment Funds, and the Restricted by Covenant Alternative Loan Fund consisting of the Housing Investment Fund (also referred to as Pool 2) and Housing Affordability Fund (also referred to as Pool 3).

Bonds issued to date were for the purpose of funding purchases of single family first mortgage and home improvement subordinated mortgage loans. The majority of the single family loans held under these bond issues were FHA insured, or VA or RD guaranteed. This bond resolution is the principal source of financing for bond-financed homeownership programs. MHFA may also issue bonds for its home improvement loan program in this fund although no bonds were issued to support home improvement lending during fiscal year 2004.

The Home Improvement Endowment Fund continues to be the principal source of financing for MHFA's home improvement loan programs. Loan repayments were utilized to finance new loan activity for home improvement loan programs during fiscal year 2004.

The Homeownership Endowment Fund is a source of funding for entry cost housing assistance for first-time homebuyers, below-market interim financing during construction and/or rehabilitation of single family housing and for warehousing loans.

The Multifamily Endowment Fund is the principal source of funding for innovative multifamily programs that are not candidates for bond financing, such as a tenant services program, a contingency fund, non-profit capacity building, flexible financing, incentive loans and a program for leveraging investments in neighborhoods and communities.

The Housing Investment Fund is currently invested in investment grade housing loans, as defined by MHFA, and may also be used to advance funds to retire high rate debt and to warehouse loans.

The Housing Affordability Fund includes a reserve, consisting of cash and investment grade housing loans, as defined by MHFA, for future administrative costs and other funds that may be used as a source of funding for bond sale contributions, multifamily first and subordinated mortgage loans, including zero-percent deferred loans, and other below-market rate loans with higher than ordinary risk factors. It may also be used to advance funds to retire high rate debt and to warehouse loans.

Discussion of Individual Funds (continued)

Single Family

This fund was historically the principal source of financing for MHFA's bond-financed homeownership programs. In fiscal year 2002, MHFA began to utilize the Residential Housing Finance Fund as its principal source of financing for these programs, because of the increased flexibility afforded by that bond resolution. Certain Single Family funds in excess of bond resolution requirements are budgeted for and used for bond sale contributions in connection with bonds issued under the Residential Housing Finance Bonds resolution.

The majority of the loans in Single Family have either FHA insurance or a VA or RD guarantee. Delinquency and foreclosure rates continue to track with the Minnesota Mortgage Bankers Association averages.

In addition to the uses described above, funds in excess of bond resolution requirements for each bond resolution described above are budgeted for and used to redeem bonds and to fund housing programs and Agency operations.

State and Federal Appropriated Funds

The appropriated funds are maintained by MHFA for the purpose of receiving and disbursing monies legislatively appropriated by the state and federal government for housing. All of the appropriated funds' net assets are restricted by law for specified uses set forth in the state appropriations or federal contracts and are not pledged to support the bondholders or creditors of MHFA.

The State Appropriated Fund was established to account for funds received from the state legislature, which are to be used for programs for low- to moderate-income persons and families in the form of low-interest loans, no-interest deferred loans, innovative development and other housing-related program costs.

The Federal Appropriated Fund was established to account for funds received from the federal government which are to be used for programs for low- to moderate-income persons and families in the form of no-interest deferred loans, grants, support to other non-profit housing organizations and other housing-related program costs.

General Overview

The following discussion is organized with two primary users in mind. The first primary user may be characterized with a focus on financial information particularly relevant from the perspective of bondholders and creditors of MHFA. The second primary user may be characterized with a focus on financial information particularly relevant to public funds appropriations, and the public policies those funds support.

The Agency defines the term "major funds" to include: General Reserve, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated.

MHFA financial statements are presented in combined "Agency-wide" form followed by "fund" financial statements presented for its major funds. The combined Agency-wide financial statements are provided to display a comprehensive view of all MHFA funds as required by accounting principles generally accepted in the United States of America. The Agency-wide financial statements reflect totals of similar accounts of various funds. However, substantially all of the funds in these accounts are restricted as to use by Agency resolutions or legislation as further described below.

Assets and revenues of the bond funds are restricted to uses specifically described in their respective bond resolutions and are pledged for the primary benefit of the respective bondholders and creditors. General Reserve is created under the MHFA bond resolutions as part of the pledge of the general obligation of MHFA. MHFA covenants in the bond resolutions that it will use the money in General Reserve only for administration and financing of programs in accordance with the policy and purpose of the MHFA enabling legislation, including reserves for the payment of

General Overview (continued)

bonds and notes and of loans made from the proceeds thereof, and shall accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose.

MHFA has no taxing power and neither the State of Minnesota nor any subdivision thereof is obligated to pay the principal or interest on debt and bonds issued by MHFA. The state has pledged to and agreed with bondholders that it will not limit or alter the rights vested in MHFA to fulfill the terms of any agreements made with bondholders or in any way impair the rights and remedies of the bondholders.

Public funds directly appropriated to MHFA by the State of Minnesota or made available to MHFA from the federal government are restricted by law to specified uses set forth in the state appropriations or federal contracts. Assets and revenues of State Appropriated and Federal Appropriated Funds are not pledged to support the debt or general obligations of MHFA.

In addition to its audited annual financial statements, MHFA publishes quarterly disclosure reports for the Single Family and Residential Housing Finance bond resolutions, and semi-annual disclosure reports for the Rental Housing bond resolution. These disclosure reports can be found on MHFA's web site at www.mhfa.state.mn.us.

MINNESOTA HOUSING FINANCE AGENCY
Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
Condensed Financial Information

Selected Elements From Statement of Net Assets (in $000's)

		Agency-wide Total[1]		Change	Combined General Reserve and Bond Funds	
		2004	2003	$	2004	2003
Assets	Cash and Investments	1,335,512	1,297,550	37,962	1,249,343	1,173,305
	Loans receivable, Net	1,413,897	1,478,002	(64,105)	1,384,804	1,450,478
	Interest Receivable	11,334	13,543	(2,209)	10,820	12,285
	Total Assets	2,767,995	2,793,810	(25,815)	2,650,746	2,640,039
Liabilities	Bonds Payable	1,844,589	1,846,679	(2,090)	1,844,589	1,846,679
	Interest Payable	36,283	43,464	(7,181)	36,283	43,464
	Funds Held for Others	88,163	88,116	47	86,510	86,344
	Total Liabilities	1,986,907	1,993,630	(6,723)	1,983,768	1,991,580
Net Assets	Restricted by Bond Resolution	387,747	382,253	5,494	387,747	382,253
	Restricted by Covenant	277,457	265,473	11,984	277,457	265,473
	Restricted by Law	114,110	151,721	(37,611)	—	—
	Total Net Assets	781,088	800,180	(19,092)	666,978	648,459

Selected Elements From Statement of Revenues, Expenses, and Changes in Net Assets (in $000's)

		Agency-wide Total[1]		Change	Combined General Reserve and Bond Funds	
		2004	2003	$	2004	2003
Revenues	Interest Earned	134,431	150,367	(15,936)	132,544	145,010
	Appropriations Received	189,913	198,516	(8,603)	—	—
	Fees and Reimbursements	10,344	10,420	(76)	23,232	23,281
	Total Revenues	338,726	376,348	(37,622)	146,754	173,685
Expenses	Interest Expense	89,514	101,023	(11,509)	89,514	101,023
	Appropriations Disbursed	180,098	170,693	9,405	—	—
	Fees and Reimbursements	5,339	5,981	(642)	14,834	15,122
	Payroll, Gen. & Admin.	20,310	21,471	(1,161)	19,165	19,667
	Loan Loss/Value Adjust's	48,894	52,984	(4,090)	4,722	1,775
	Total Expenses	357,818	365,823	(8,005)	128,235	137,587
	Revenues over Expenses	(19,092)	10,525	(29,617)	18,519	36,098
	Beginning Net Assets	800,180	789,655	10,525	648,459	612,361
	Ending Net Assets	781,088	800,180	(19,092)	666,978	648,459

(1) Agency-wide totals include interfund amounts.

Change $	Combined State and Federal Appropriations Funds 2004	2003	Change $
76,038	86,169	124,245	(38,076)
(65,674)	29,093	27,524	1,569
(1,465)	514	1,258	(744)
10,707	117,249	153,771	(36,522)
(2,090)	—	—	—
(7,181)	—	—	—
166	1,653	1,772	(119)
(7,812)	3,139	2,050	1,089
5,494	—	—	—
11,984	—	—	—
—	114,110	151,721	(37,611)
18,519	114,110	151,721	(37,611)

Change $	Combined State and Federal Appropriations Funds 2004	2003	Change $
(12,466)	1,887	5,357	(3,470)
—	189,913	198,516	(8,603)
(49)	775	810	(35)
(26,931)	191,972	202,663	(10,691)
(11,509)	—	—	—
—	180,098	170,693	9,405
(288)	4,168	4,530	(362)
(502)	1,145	1,804	(659)
2,947	44,172	51,209	(7,037)
(9,352)	229,583	228,236	1,347
(17,579)	(37,611)	(25,573)	(12,038)
36,098	151,721	177,294	(25,573)
18,519	114,110	151,721	(37,611)

FINANCIAL HIGHLIGHTS

When reading the following financial highlights section referring to the General Reserve and bond funds, the reader is encouraged to review the Fund Financial Statements included as supplementary information in the 2004 Financial Report.

General Reserve and Bond Funds — Statement of Net Assets

In recent years, the type of assets in General Reserve and bond funds has been comparatively stable with loans receivable, investments, cash, cash equivalents, and interest receivable comprising the majority of assets. Equipment, fixtures, furniture, capitalized software costs, and other assets continue to be insignificant in relation to the total General Reserve and bond fund assets.

Loans receivable, net is the largest single category of bond fund assets; they are limited to housing-related lending that supports a public mission objective. Loans receivable, net decreased 5% to $1,385 million at June 30, 2004 as a result of prepayments and repayments of loans exceeding new loan purchases and originations. There are no loan assets in General Reserve.

Investments, cash, and cash equivalents are the next largest categories of assets and are carefully managed to assure adequate resources for future debt service requirements and liquidity needs. The combined investments, cash, and cash equivalents increased 6% to $1,249 million at June 30, 2004 due to proceeds of loan prepayments on hand and higher levels of short-term debt outstanding at fiscal year end.

Interest receivable on loans and investments is a function of the timing of interest payments and the general level of interest rates. Combined loan and investment interest receivable decreased 12% to $10.820 million at June 30, 2004 generally as a result of historically low interest rates and declining loans outstanding.

Bonds payable, net is the largest single category of liabilities, resulting from debt issued to fund housing-related lending that supports MHFA's mission. Bonds payable decreased negligibly to $1,845 million at June 30, 2004 resulting from early redemptions made possible by accelerated loan prepayments, optional redemptions from Agency resources, scheduled redemptions and bond maturities, which marginally exceeded new debt issuance.

The companion category of interest payable decreased 17% to $36.283 million at June 30, 2004 as a result of reduced interest rates and fewer average bonds outstanding.

There is no debt issued in General Reserve. General Reserve does recognize a significant liability for funds held for others. These funds are routinely collected and held in escrow on behalf of multifamily borrowers pursuant to the loan documents and are used for future periodic payments of real property taxes, casualty insurance premiums, and certain operating expenditures. Funds held for others in General Reserve increased negligibly to $86.510 million at June 30, 2004 since deposits were approximately equal to payments made from escrows.

Accounts payable and other liabilities increased 10% to $15.152 million at June 30, 2004 primarily as a result of higher levels of general and administrative expenses payable. The largest component of accounts payable continues to be arbitrage liability on tax-exempt bonds pursuant to federal law, which is payable to the United States Treasury. The MHFA obtains from independent valuation specialists annual calculations of its arbitrage rebate liability.

Interfund payable/receivable exists primarily as a result of pending administrative and program reimbursements among funds. Most administrative expenses are paid from General Reserve, with the bond funds and Appropriated Funds owing an administrative reimbursement to General Reserve for the respective fund's contribution to those administrative expenses.

Net assets of General Reserve and bond funds are divided into two primary categories. Net assets Restricted by Bond Resolution are pledged to the payment of bonds, subject to bond resolution requirements that authorize MHFA to withdraw funds in excess of the amounts required

General Reserve and Bond Funds — Statement of Net Assets (continued)

to be maintained under the bond resolutions. Net assets Restricted by Covenant are subject to a covenant with bondholders that the Agency shall use the money in General Reserve (including the Alternative Loan Fund) only for the administration and financing of programs in accordance with the policy and purpose of the MHFA enabling legislation, including the creation of reserves for the payment of bonds and of loans made from the proceeds thereof, and shall accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose. The Board of the Agency has established investment guidelines for these funds to ensure that funds are preserved to provide financial security for the Agency's bondholders as covenanted in the bond resolutions. Net assets increased 3% to $666.978 million at June 30, 2004 as a result of consistent financial performance of the bond funds.

Capital assets, net (equipment, fixtures, furniture, software costs) continue to be insignificant in relation to General Reserve and bond fund assets, representing less than 1% of total net assets. Capital assets are recorded in General Reserve.

General Reserve and Bond Funds — Revenues Over Expenses

Revenues over expenses of General Reserve and bond funds remained adequate in fiscal year 2004, modestly lower than fiscal year 2003 after considering the net effect of unrealized gains and losses that result from market valuation adjustments to certain investment assets. Compared to the prior year, both total revenues and total expenses were down. Offsetting some of the unfavorable effects of interest revenue declines was the favorable effect of interest expense declines.

The largest revenue component, interest earned, was down throughout the year as yields on loans and investments remained at historically low levels. Combined interest revenues of General Reserve and bond funds from loans and investments declined 9% to $132.544 million compared to the prior year, consistent with historically low interest rates. Loan interest was lower in fiscal year 2004 as mortgage loan refinancing caused higher levels of prepayments and, when combined with repayments, exceeded new loan purchases and originations which were also at lower interest rates. Investment interest was lower in fiscal year 2004 due to continued low interest rates.

Administrative reimbursements to General Reserve from bond funds decreased negligibly to $14.349 million compared to prior year as administrative expense requirements remained similar to fiscal year 2003 in General Reserve.

Other fee income to General Reserve and bond funds decreased negligibly to $8.883 million compared to the prior year. The primary components of other fee income continue to be federal housing tax credit program fees, Section 8 contract administration fees and federal Housing Assistance Payments administration fees.

MHFA recorded $9.022 million of unrealized losses on investment securities during fiscal year 2004, compared to $5.394 million of unrealized gains during the prior year, for a net decrease of $14.416 million. Unrealized losses occurred when the cumulative unrealized gains from prior periods were reversed as the investment securities neared maturity and when interest rates began rising in 2004.

Interest expense of the bond funds decreased 11% to $89.514 million compared to the prior year as a result of reduced interest rates on recently issued bonds and fewer average bonds outstanding.

Combined expenses for loan administration, trustee fees and administrative reimbursements in the bond funds declined slightly by 2% to $14.834 million compared to the prior year. The majority of the decrease is a result of the reduction of loan administration fees as loans outstanding has declined. Note that $13.663 million of the total administrative fee reimbursement revenue of $14.349 million was interfund charges which were eliminated for purposes of financial reporting in the Agency-wide financial statements.

General Reserve and Bond Funds — Revenues Over Expenses (continued)

Salaries, benefits, and other general operating expenses in General Reserve and bond funds decreased 2% to $19.165 million compared to the prior year due to capitalized expenses for information systems development projects.

Reductions in carrying value of certain low interest rate deferred loans in the bond funds increased by $2.823 million to $2.492 million as valuation reductions of new deferred loans exceeded recoveries from existing deferred loans.

Provision for loan loss expense in the bond funds increased 6% to $2.230 million, consistent with management's assessment of increasing loan portfolio risk despite declining loan volume. Non-operating transfers occur as a result of bond sale contributions related to new debt issues, the periodic transfer of assets to maintain the Housing Endowment Fund requirement, and periodic transfers from the bond funds of amounts in excess of bond resolution requirements.

Combined revenues over expenses for General Reserve and the bond funds decreased 49% to $18.519 million compared to prior year. After considering the non-operating effects of unrealized gains and losses that adjust certain investment asset values to market conditions, the combined revenues over expenses are down primarily as a result of historically low interest rates and declining loan assets. Although down from the previous year, this level of net revenue over expenses remains comparable at the lower range of performance of General Reserve and the bond funds in recent years. Revenues over expenses in General Reserve that are in excess of the Housing Endowment Fund requirement are transferred periodically to the Housing Investment and/or Housing Affordability Fund in the Residential Housing Finance Fund for use in housing programs.

Total combined net assets of General Reserve and bond funds have increased 3% to $666.978 million as a result of revenues over expenses for fiscal year 2004. The net assets of Rental Housing and Residential Housing Finance bond funds have increased while net assets of General Reserve and Single Family bond fund have decreased, as a result of net revenues over expenses by fund and non-operating transfers of assets between funds.

State and Federal Appropriated Funds — Statement of Net Assets

Assets of the appropriated funds are derived from the appropriation of public funds by the State of Minnesota and funds made available to MHFA by the federal government for housing related policy purposes. The public policy of housing preservation and development is a long-term commitment that commonly requires appropriations received in the current period to be expended over several future years of planned development. This timing difference is the primary reason for the presence of investments, cash, and cash equivalent assets in the Appropriated Funds and for the balance of net assets restricted by law.

Investments, cash, and cash equivalents are the largest category of assets in the Appropriated Funds. The June 30, 2004 combined balance decreased 31% to $86.169 million as a result of higher levels of disbursements and lower levels of receipts in the current year. Appropriations received in the prior year were higher mainly due to one-time appropriations.

Certain state appropriations are expended as housing loans with below market interest rates, resulting in loans receivable. At June 30, 2004 State Appropriated Fund loans receivable increased 6% to $29.093 million reflecting higher volume of state loan program activity.

Interest receivable in Appropriated Funds is a function of the timing of interest payments and the general level of interest rates on investments. Interest receivable on Appropriated Funds at June 30, 2004 decreased 59% to $.514 million as a result of declining investment yields and lower average investment balances.

State and Federal Appropriated Funds — Statement of Net Assets (continued)

Accounts payable and other liabilities represent amounts payable for HUD Section 236 interest reduction payments, Section 8 FA/FAF savings and accrued expenses for federal and state housing programs. The balance payable at June 30, 2004 was $2.720 million.

For administrative convenience, certain State Appropriated Fund loans are administered within the bond funds, resulting in an interfund receivable for the loan disbursement and servicing activities. Interfund payable occurs in the Federal Appropriated Fund as a result of overhead expense and indirect cost recoveries due to MHFA. At June 30, 2004 the combined net interfund receivable was $1.234 million.

Funds held for others represent excess federal housing assistance payments received for the administration of the Section 8 program, and the interest income earned on those unexpended funds. At June 30, 2004 the balance of funds held for the federal government was $1.653 million.

All of the net assets of the Appropriated Funds are restricted by law for use with housing programs only and are not pledged to support the bondholders or creditors of MHFA. The combined net assets of the Appropriated Funds declined to $114.110 million as of June 30, 2004 compared to the prior period, reflecting reduced levels of new appropriations received and increased appropriations disbursed during fiscal year 2004.

State and Federal Appropriated Funds — Revenues Over Expenses

State and federal appropriated funds are recorded as revenue in the period in which such appropriations are earned. Funds are spent for eligible program activities as defined by the various agreements between MHFA and the State of Minnesota or agencies of the federal government. Unexpended appropriations proceeds are invested and the interest income on the investments is recorded as it is earned, except for interest earned on certain unexpended federal appropriations, which is recorded as funds held for others. Similarly, interest income on certain State Appropriated fund loan receivables is recorded as it is earned.

The largest revenue category is appropriations received, and is a function of the fiscal, legislative, and political environment of the State of Minnesota and the federal government. The combined appropriations received decreased from $198.516 million at June 30, 2003 to $189.913 at June 30, 2004. Federal appropriations increased while state appropriations decreased.

Interest income from investments was down throughout the year as interest rates in general continued their decline to historically low levels. Investment assets were also down during the year contributing to the combined interest income decline of 65% to $1.845 million at June 30, 2004.

Loan interest income from State Appropriations loan assets continues to be minimal as relatively few loans are interest bearing.

Unrealized losses on investments are recorded to reflect valuation adjustments to current market conditions for investments, and may be reversed over time as the investments are held. Unrealized losses decreased significantly by 70% to $.603 million compared to the prior year as previous losses were reversed as investment asset balances were spent in program disbursements.

Administrative reimbursements of expenses to General Reserve decreased 8% to $4.131 million compared to the prior year, primarily as a result of reduced expense to administer state appropriated programs.

Combined appropriations disbursed increased 6% to $180.098 million compared to prior year, reflecting continued efforts to support housing policy objectives.

Reduced expenditures of State Appropriated Funds for below market and zero-percent interest rate loans resulted in less reductions in carrying value of certain loans. Net reductions of carrying value decreased 14% to $43.975 million compared to prior year, as a result of making fewer fully reserved deferred loans for low- and moderate-income housing.

State and Federal Appropriated Funds — Revenues Over Expenses (continued)

Other general operating expenses represent fees for professional and technical support to implement and administer certain state housing programs. Other general operating expense decreased 37% to $1.145 million at June 30, 2004.

Combined expenditures exceeded combined revenues of the Appropriated Funds by $37.611 at June 30, 2004, reflecting current year disbursements of appropriations that were received in prior years. Ultimately, the entire State and Federal Appropriated Funds' net assets will be expended for housing.

Significant Long-term Debt Activity

MHFA is a significant debt issuer, having outstanding at June 30, 2004 long-term debt totaling $1,337 million and short-term debt totaling $507 million, net of deferred finance and issuance costs. MHFA bond funds are held by a trustee, who ensures that bond resolution requirements are met, including payments of debt service. At June 30, 2004, amounts held by the trustee in principal, interest and redemption accounts represented full funding of debt service requirements to that date. Bond resolutions also require funding of debt service reserve accounts and may require funding of insurance reserve accounts. At June 30, 2004, amounts held by the trustee in such reserve and revenue accounts represented full funding of those requirements to that date.

Most of the debt issued by MHFA is tax-exempt and is issued under the Internal Revenue Code and Treasury regulations governing either mortgage revenue bonds or residential rental projects. MHFA's ability to issue tax-exempt debt is limited by MHFA's share of the state's allocation of the private activity volume cap, which is set in Minnesota law. MHFA's ability to issue tax-exempt debt is also limited by the federal rule (commonly known as the 10-year rule) that prohibits refunding of mortgage repayments and prepayments received more than ten years after the date of issuance of the bonds that financed such mortgage loans. When economic conditions favor it, MHFA issues limited amounts of taxable debt in order to supplement its tax-exempt authority and for lending under programs where federal restrictions are inconsistent with the program requirements. Board policy governs the process MHFA follows to issue and manage debt and state statute limits MHFA's outstanding debt to $3.0 billion.

Both Standard and Poor's Ratings Services and Moody's Investors Service continue to affirm general obligation ratings for MHFA of AA+ and Aa1 respectively. MHFA's bond ratings are separate from, and are not directly dependent on, ratings on debt issued by the State of Minnesota. In addition to ongoing reporting to and communications with the bond rating services, periodically MHFA prepares a comprehensive study of the creditworthiness and financial strength of its funds (excluding the appropriated funds). Information obtained from the analysis is presented to the bond rating services and is used by MHFA staff to make decisions about management of assets and debt.

MHFA continually investigates and utilizes available debt management techniques to achieve its goals of reducing interest expense and efficiently utilizing its bonding authority.

During the year, MHFA completed the issuance/remarketing of 26 series of bonds aggregating to $761 million. This is compared to the combined issuance and remarketing of 16 series totaling $447 million the previous year. In recent years, MHFA has retired high rate debt when it becomes optionally redeemable and resources were available. Bonds are issued as capital is needed for program purposes, as opportunities for economic refundings occur, and for preservation of bonding authority.

A total of $766 million in principal payments were made during the year. Of this amount, $378 million was retired prior to the scheduled maturity date using a combination of optional and special redemption provisions.

Significant Topics Which Affect Financial Condition and/or Operations

Legislative Actions

The 2003 Minnesota Legislature adopted a FY 2004 — 2005 biennial budget that appropriates less money to MHFA than the previous biennium's base appropriations as part of an effort to balance the budget of the State of Minnesota for the current biennium. The $9.3 million reduction represents 12% of the total base appropriation to MHFA. In May 2004, the governor directed state agencies to reduce budgets for FY 2005 in order to eliminate a projected $160 million deficit. MHFA was directed to reduce its state appropriated budget by $628,000 or about 1.8% of the funds appropriated for FY 2005. State appropriations are used for specific programs, and are not available to pay for MHFA operations or debt service. Changes in state and federal laws, governing administration, funding objectives, housing policy, and fiscal policy pose a potential risk to MHFA's attainment of mission and financial objectives.

Additional Information

Questions and inquiries may be directed to either Mr. Mike LeVasseur or Ms. Sharon Spahn Bjostad at Minnesota Housing Finance Agency, 400 Sibley Street, Suite 300, St. Paul, MN 55101 (651-296-7608).

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Net Assets (in thousands)
June 30, 2004 (with comparative totals for June 30, 2003)

		2004 Agency-wide Total	2003 Agency-wide Total
Assets	Cash and cash equivalents	$ 950,429	$ 857,905
	Investment securities	385,083	439,645
	Loans receivable, net	1,413,897	1,478,002
	Interest receivable on loans	7,395	8,032
	Interest receivable on investments	3,939	5,511
	Mortgage insurance claims receivable	763	584
	Real estate owned	1,593	899
	Capital assets, net	1,774	733
	Other assets	3,122	2,499
	Total assets	$2,767,995	$2,793,810
Liabilities	Bonds payable, net	$1,844,589	$1,846,679
	Interest payable	36,283	43,464
	Accounts payable and other liabilities	17,872	15,371
	Funds held for others	88,163	88,116
	Total liabilities	1,986,907	1,993,630
	Commitments and contingencies		
Net Assets	Restricted by bond resolution	387,747	382,253
	Restricted by covenant	277,457	265,473
	Restricted by law	114,110	151,721
	Invested in capital assets	1,774	733
	Total net assets	781,088	800,180
	Total liabilities and net assets	$2,767,995	$2,793,810

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Activities (in thousands)
Year ended June 30, 2004 (with comparative totals for the year ended June 30, 2003)

		2004 Agency-wide Total	2003 Agency-wide Total
Revenues	Interest earned on loans	$ 95,338	$109,109
	Interest earned on investments	39,093	41,258
	Appropriations received	189,913	198,516
	Administrative reimbursement	686	701
	Fees earned and other income	9,658	9,719
	Unrealized gains on securities	(9,625)	3,374
	Total revenues	325,063	362,677
Expenses	Interest	89,514	101,023
	Loan administration and trustee fees	5,339	5,981
	Salaries and benefits	13,131	13,124
	Other general operating	7,179	8,347
	Appropriations disbursed	180,098	170,693
	Reduction in carrying value of certain low interest rate deferred loans	46,467	50,878
	Provision for loan losses	2,427	2,106
	Total expenses	344,155	352,152
	Revenues over expenses	(19,092)	10,525
	Change in net assets	(19,092)	10,525
Net Assets	Total net assets, beginning of year	800,180	789,655
	Total net assets, end of year	$781,088	$800,180

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Net Assets (in thousands)
Proprietary Funds
June 30, 2004 (with comparative totals for June 30, 2003)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Assets	Cash and cash equivalents	$ 4,807	$ 43,273	$ 629,917	$261,992
	Investment securities	115,155	38,771	142,893	12,535
	Loans receivable, net	—	228,622	633,363	522,819
	Interest receivable on loans	—	1,697	2,887	2,811
	Interest receivable on investments	1,128	1,141	913	243
	Mortgage insurance claims receivable	—	—	6	757
	Real estate owned	—	—	251	1,342
	Capital assets, net	1,774	—	—	—
	Other assets	1,138	8	498	5
	Total assets	$124,002	$313,512	$1,410,728	$802,504
Liabilities	Bonds payable, net	$ —	$216,928	$ 933,993	$693,668
	Interest payable	—	4,945	12,141	19,197
	Accounts payable and other liabilities	3,669	418	2,348	8,717
	Interfund payable (receivable)	3,708	21,150	(24,791)	1,167
	Funds held for others	86,510	—	—	—
	Total liabilities	93,887	243,441	923,691	722,749
	Commitments and contingencies				
Net Assets	Restricted by bond resolution	—	70,071	237,921	79,755
	Restricted by covenant	28,341	—	249,116	—
	Restricted by law	—	—	—	—
	Invested in capital assets	1,774	—	—	—
	Total net assets	30,115	70,071	487,037	79,755
	Total liabilities and net assets	$124,002	$313,512	$1,410,728	$802,504

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2004 Total	2003 Total
$ 6,256	$ 4,184	$ 950,429	$ 857,905
69,220	6,509	385,083	439,645
29,093	—	1,413,897	1,478,002
—	—	7,395	8,032
432	82	3,939	5,511
—	—	763	584
—	—	1,593	899
—	—	1,774	733
250	1,223	3,122	2,499
$105,251	$11,998	$2,767,995	$2,793,810
$ —	$ —	$1,844,589	$1,846,679
—	—	36,283	43,464
754	1,966	17,872	15,371
(1,448)	214	—	—
—	1,653	88,163	88,116
(694)	3,833	1,986,907	1,993,630
—	—	387,747	382,253
—	—	277,457	265,473
105,945	8,165	114,110	151,721
—	—	1,774	733
105,945	8,165	781,088	800,180
$105,251	$11,998	$2,767,995	$2,793,810

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Revenues, Expenses and Changes in Net Assets (in thousands)
Proprietary Funds
Year ended June 30, 2004 (with comparative totals for the year ended June 30, 2003)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Revenues	Interest earned on loans	$ —	$16,982	$ 31,989	$ 46,325
	Interest earned on investments	617	3,098	15,499	18,034
	Appropriations received	—	—	—	—
	Administrative reimbursement	14,349	—	—	—
	Fees earned and other income	7,631	933	319	—
	Unrealized gains (losses) on securities	(2,042)	(1,473)	(2,735)	(2,772)
	Total revenues	20,555	19,540	45,072	61,587
Expenses	Interest	—	15,196	23,064	51,254
	Loan administration and trustee fees	—	246	2,651	2,405
	Administrative reimbursement	—	1,496	3,383	4,653
	Salaries and benefits	13,131	—	—	—
	Other general operating	5,782	—	252	—
	Appropriations disbursed	—	—	—	—
	Reduction in carrying value of certain low interest rate deferred loans	—	(226)	2,718	—
	Provision for loan losses	—	897	1,255	78
	Total expenses	18,913	17,609	33,323	58,390
	Revenues over (under) expenses	1,642	1,931	11,749	3,197
Other changes	Non-operating transfer of assets between funds	(4,036)	358	15,596	(11,918)
	Change in net assets	(2,394)	2,289	27,345	(8,721)
Net Assets	Total net assets, beginning of year	32,509	67,782	459,692	88,476
	Total net assets, end of year	$30,115	$70,071	$487,037	$ 79,755

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	**Federal Appropriated**	**2004 Total**	**2003 Total**
$ 42	$ —	$ 95,338	$109,109
1,646	199	39,093	41,258
35,069	154,844	189,913	198,516
—	—	14,349	14,372
775	—	9,658	9,719
(474)	(129)	(9,625)	3,374
37,058	154,914	338,726	376,348
—	—	89,514	101,023
37	—	5,339	5,981
4,131	—	13,663	13,671
—	—	13,131	13,124
1,145	—	7,179	8,347
23,714	156,384	180,098	170,693
43,975	—	46,467	50,878
197	—	2,427	2,106
73,199	156,384	357,818	365,823
(36,141)	(1,470)	(19,092)	10,525
—	—	—	—
(36,141)	(1,470)	(19,092)	10,525
142,086	9,635	800,180	789,655
$105,945	$ 8,165	$781,088	$800,180

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds
Year ended June 30, 2004 (with comparative totals for the year ended June 30, 2003)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Cash flows from operating activities	Principal repayments on loans	$ —	$ 27,622	$ 97,365	$ 234,931
	Investment in loans	—	(21,860)	(254,070)	(25,669)
	Interest received on loans	—	16,815	31,403	43,818
	Other operating	—	—	(252)	—
	Fees and other income received	7,628	933	427	—
	Salaries, benefits and vendor payments	(18,391)	(249)	(2,262)	(2,419)
	Appropriations received	—	—	—	—
	Appropriations disbursed	—	—	—	—
	Administrative reimbursement from funds	14,379	(1,491)	(3,383)	(4,653)
	Interest transferred to funds held for others	(2,649)	—	—	—
	Deposits into funds held for others	35,907	—	10	—
	Disbursements made from funds held for others	(35,747)	—	(4)	—
	Interfund transfers and other assets	(352)	—	222	(333)
	Net cash provided (used) by operating activities	775	21,770	(130,544)	245,675
Cash flows from noncapital financing activities	Proceeds from sale of bonds	—	13,485	727,941	23,000
	Principal repayment on bonds	—	(43,740)	(313,223)	(408,710)
	Interest paid on bonds and notes	—	(12,824)	(17,226)	(59,488)
	Financing costs paid related to bonds issued	—	(315)	(4,117)	(294)
	Interest paid/received between funds	—	(1,541)	1,541	—
	Principal paid/received between funds	—	(135)	135	—
	Premium paid on redemption of bonds	—	(392)	—	(1,026)
	Agency contribution to program funds	—	358	11,560	(11,918)
	Transfer of cash between funds	(2,856)	—	2,856	—
	Net cash provided (used) by noncapital financing activities	(2,856)	(45,104)	409,467	(458,436)
Cash flows from investing activities	Investment in real estate owned	—	—	(49)	(692)
	Interest received on investments	4,003	3,338	14,668	15,615
	Proceeds from sale of mortgage insurance claims/real estate owned	—	—	708	5,885
	Proceeds from maturity, sale or transfer of investment securities	40,080	32,729	142,136	20,798
	Purchase of investment securities	(39,343)	(29,155)	(151,060)	(5,753)
	Purchase of loans between funds	—	—	(64,236)	64,236
	Net cash provided (used) by investing activities	4,740	6,912	(57,833)	100,089
	Net increase (decrease) in cash and cash equivalents	2,659	(16,422)	221,090	(112,672)
Cash and cash equivalents	Beginning of year	2,148	59,695	408,827	374,664
	End of year	$ 4,807	$ 43,273	$ 629,917	$ 261,992

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2004 Total	2003 Total
$ 9,050	$ —	$ 368,968	$ 452,221
(54,632)	—	(356,231)	(303,852)
42	—	92,078	108,812
(866)	—	(1,118)	(1,939)
525	—	9,513	8,731
(298)	—	(23,619)	(25,175)
35,069	154,365	189,434	198,417
(23,630)	(155,506)	(179,136)	(169,780)
(4,188)	—	664	965
—	(11)	(2,660)	(3,481)
—	698	36,615	35,983
—	(817)	(36,568)	(42,846)
126	—	(337)	(506)
(38,802)	(1,271)	97,603	257,550
—	—	764,426	446,823
—	—	(765,673)	(538,270)
—	—	(89,538)	(99,038)
—	—	(4,726)	(2,066)
—	—	—	—
—	—	—	—
—	—	(1,418)	(1,103)
—	—	—	—
—	—	—	—
—	—	(96,929)	(193,654)
—	—	(741)	(429)
2,782	328	40,734	46,143
—	—	6,593	4,034
142,782	8,316	386,841	407,859
(109,478)	(6,788)	(341,577)	(429,471)
—	—	—	—
36,086	1,856	91,850	28,136
(2,716)	585	92,524	92,032
8,972	3,599	857,905	765,873
$ 6,256	$ 4,184	$ 950,429	$ 857,905

(continued)

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds (continued)
Year ended June 30, 2004 (with comparative totals for the year ended June 30, 2003)

Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities

		Bond Funds		
	General Reserve	Rental Housing	Residential Housing Finance	Single Family
Revenues over (under) expenses	$ 1,642	$ 1,931	$ 11,749	$ 3,197
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:				
Amortization of premiums (discounts) and fees on loans	—	(164)	326	(3,626)
Depreciation	481	—	—	—
Loss on disposal of fixed assets	—	—	—	—
Realized gains on sale of securities, net	(80)	(134)	(159)	(1,650)
Unrealized losses (gains) on securities, net	2,042	1,473	2,735	2,772
Provision for loan losses	—	897	1,255	78
Reduction in carrying value of certain low interest rate and/or deferred loans	—	(226)	2,718	—
Capitalized interest on loans and real estate owned	—	(73)	(44)	(420)
Interest earned on investments	(537)	(3,141)	(16,181)	(16,619)
Interest expense on bonds and notes	—	15,196	23,064	51,254
Changes in assets and liabilities:				
Decrease (increase) in loans receivable, excluding loans transferred between funds	—	5,762	(156,705)	209,262
Decrease (increase) in interest receivable on loans	—	70	(867)	1,434
Increase in arbitrage rebate liability	—	177	841	340
Interest transferred to funds held for others	(2,649)	—	—	—
Increase (decrease) in accounts payable	41	(4)	496	(15)
Increase (decrease) in interfund payable, affecting operating activities only	30	5	207	(333)
Increase (decrease) in funds held for others	160	—	6	—
Other	(355)	1	15	1
Total	(867)	19,839	(142,293)	242,478
Net cash provided (used) by operating activities	$ 775	$21,770	$(130,544)	$245,675

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2004 Total	2003 Total
$(36,141)	$(1,470)	$ (19,092)	$ 10,525
—	—	(3,464)	(1,369)
—	—	481	539
—	—	—	571
(2)	(1)	(2,026)	(1,206)
474	129	9,625	(3,374)
197	—	2,427	2,106
43,975	—	46,467	50,878
—	—	(537)	(348)
(1,644)	(198)	(38,320)	(41,497)
—	—	89,514	101,023
(45,582)	—	12,737	148,369
—	—	637	1,320
—	—	1,358	1,545
—	(11)	(2,660)	(3,481)
102	856	1,476	(386)
69	22	—	—
—	(119)	47	(6,863)
(250)	(479)	(1,067)	(802)
(2,661)	199	116,695	247,025
$(38,802)	$(1,271)	$ 97,603	$257,550

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2004

Nature of Business and Fund Structure

The Minnesota Housing Finance Agency (the Agency or MHFA) was created in 1971 by an Act of the Minnesota legislature. The Agency was established to facilitate the construction and rehabilitation of housing in Minnesota for families of low-and moderate-income by providing for mortgage loans, development loans, and technical assistance to qualified housing sponsors to be used for construction and rehabilitation of housing. The Agency, as a special purpose agency engaged in business-type activities, is a component unit of the State of Minnesota, and is reflected as a proprietary fund in the state's comprehensive annual financial report. The Agency receives appropriations from the state legislature, substantially all of which are used to make loans or grants under specified non-bond-financed programs. The Agency also receives funds from the federal government or through other entities for similar purposes.

The Agency is authorized to issue bonds and other obligations to fulfill its corporate purposes up to a total outstanding amount of $3.0 billion. Amounts so issued shall not be deemed to constitute a debt of the State of Minnesota or any political subdivision thereof.

The following describes the funds maintained by the Agency, which are included in this report, all of which conform with the authorizing legislation and bond resolutions:

General Reserve

General Reserve was established in fulfillment of the pledge by the Agency of its full faith and credit in its bond resolutions. Administrative costs of the Agency and multifamily development escrow receipts and related disbursements are recorded in this account. The net assets of General Reserve are available to support the following funds which are further described below: Rental Housing, Residential Housing Finance and Single Family.

Rental Housing

Bond proceeds for the multifamily housing programs were maintained under the Rental Housing bond resolution. Loans are secured by first mortgages on real property.

Residential Housing Finance

Included within Residential Housing Finance are the bonds issued and outstanding under the Residential Housing Finance Bonds resolution, the bond resolution restricted Home Improvement, Homeownership and Multifamily Endowment Funds, and the Alternative Loan Fund, which is restricted by a covenant with bondholders.

Bonds

The series bonds outstanding were issued to fund purchases of single family first mortgage loans and home improvement subordinated loans. Assets of the series bonds issued and outstanding under the resolution and of the three endowment funds described below are pledged to the repayment of Residential Housing Finance bondholders.

Home Improvement Endowment Fund

This fund is a principal source of funding for home improvement loans. Home improvement loans in excess of $10,000 are generally secured by a second mortgage.

Homeownership Endowment Fund

This fund is a source of funding for entry cost housing assistance programs for first-time homebuyers, below-market interim financing during construction and/or rehabilitation of single family housing and to warehouse loans.

Nature of Business and Fund Structure (continued)

Multifamily Endowment Fund

This fund is the principal source of funding for innovative multifamily programs that are not candidates for bond financing such as a tenant services program, a contingency fund, non-profit capacity building, flexible financing, incentive loans and a program for leveraging investments in neighborhoods and communities.

Alternative Loan Fund

An Alternative Loan Fund has been established in Residential Housing Finance to deposit funds in either the Housing Investment Fund or Housing Affordability Fund, which were otherwise available to be transferred to General Reserve. The Alternative Loan Fund is not pledged to the payment of the Residential Housing Finance bonds, or any other specific debt obligation of the Agency, and is generally available to pay any debt obligation of the Agency.

The Alternative Loan Fund, Housing Investment Fund, is currently invested in investment grade loans, as defined by the Agency, and may also be used to advance funds to retire high rate debt and to warehouse loans.

The Alternative Loan Fund, Housing Affordability Fund, includes a reserve consisting of cash and investment grade housing loans, as defined by the Agency, for future Agency administrative costs and other funds that may be used as a source of funding for bond sale contributions, multifamily first and subordinated mortgage loans including zero-percent deferred loans, and other below market-rate loans with higher than ordinary risk factors. It may also be used to advance funds to retire high rate debt and to warehouse loans.

Single Family

Bonds issued for homeownership programs have been issued under Single Family and, since 2001, under Residential Housing Finance. The Agency generally expects to issue future bonds for homeownership programs under Residential Housing Finance. Agency contributions to bonds issued under Residential Housing Finance may be made from Single Family. Loans are secured by first mortgages on real property.

Each respective bond resolution described above prescribes the accounting for bond proceeds, debt service requirements of the bond indebtedness, permitted investments, and eligible loans to be financed from the bond proceeds.

State Appropriated

The State Appropriated fund was established to account for funds received from the state legislature which are to be used for programs for low- to moderate-income persons and families in the form of low-interest loans, no-interest deferred loans, innovative development and other housing-related program costs. The net assets of the State Appropriated fund are not available to support the bondholders or creditors of the Agency.

Federal Appropriated

The Federal Appropriated fund was established to account for funds received from the federal government which are to be used for programs for low- to moderate-income persons and families in the form of no-interest deferred loans, grants, support to other non-profit housing organizations and other housing-related program costs. The net assets of the Federal Appropriated fund are not available to support the bondholders or creditors of the Agency.

Summary of Significant Accounting Policies

The following is a summary of the more significant accounting policies.

Basis of Accounting

The Agency's financial statements have been prepared on the basis of the proprietary fund concept which pertains to financial activities that operate in a manner similar to private business enterprises and are financed through fees and charges assessed primarily to the users of the services.

Generally Accepted Accounting Principles

The Agency has adopted Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting. The Agency has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements, Accounting Principles Board (APB) opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Since the business of the Agency is essentially that of a financial institution having a business cycle greater than one year, the statement of net assets is not presented in a classified format.

New Accounting Pronouncements

In May 2002, the Governmental Accounting Standards Board (GASB) issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an Amendment of GASB Statement No. 14,* which is effective for the year ended June 30, 2004. Statement No. 39 amends Statement No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, Statement No. 39 requires reporting, as a component, an organization that raises and holds economic resources for the direct benefit of a governmental unit. Statement No. 39 did not have an impact on the Agency's financial statements.

On March 27, 2003 GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures, which amends GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase,* to require disclosure of information covering four principal areas:

- Investment credit risk disclosures, including credit quality information issued by rating agencies.
- Interest rate disclosures that include investment maturity information, such as weighted average maturities or specification identification of the securities.
- Interest rate sensitivity for investments highly sensitive to changes in interest rates (e.g., inverse floaters, enhanced variable-rate investments, and certain asset-backed securities).
- Foreign exchange exposures that would indicate the foreign investment's denomination.

GASB Statement No. 40 is effective for the fiscal year ending June 30, 2005. The adoption of GASB Statement No. 40 will not affect the Agency's net assets.

On June 25, 2003, the GASB issued Technical Bulletin 2003-1, *Disclosure Requirements for Derivatives Not Presented at Fair Value on the Statement of Net Assets,* which requires state and local governments to disclose the objectives of derivatives, such as interest rate swaps, as well as their terms, fair values, and certain risks. This Technical Bulletin was implemented by the Agency for the fiscal year ended June 30, 2004, and did not affect the Agency's net assets.

Summary of Significant Accounting Policies (continued)

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* GASB Statement No. 42 requires governments to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Under GASB Statement No. 42, a capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Additionally, GASB Statement No. 42 requires impaired capital assets that are idle to be disclosed, and those that will no longer be used by the government to be reported at the lower of carrying value or fair value. GASB Statement No. 42 also requires that an insurance recovery associated with events or changes in circumstances resulting in impairment of a capital asset to be netted with the impairment loss, if any. The provisions of GASB Statement No. 42 are effective for fiscal periods beginning after December 15, 2004. The adoption of GASB Statement No. 42 in fiscal 2006 is not expected to have a significant effect on the Agency's financial statements.

In May 2004, the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* Other postemployment benefits (OPEB) include health care and other non-pension benefits provided to employees as part of their compensation for services. The standards apply to OPEB plans that are included as trust funds in the financial reports of plan sponsors or employers, and to stand-alone financial reports of OPEB plans that are established as trusts, when issued by the public employee retirement systems or other governmental entities that administer them. GASB Statement No. 43 also provides requirements for reporting of OPEB funds by administrators of multiple-employer OPEB plans when the fund used is not a trust fund. GASB Statement No. 43 addresses the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and (b) providing information about actuarial liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. GASB Statement No. 43 is effective for the Agency's fiscal year ending June 30, 2007. The Agency has not yet determined the effect that the adoption of this Statement will have on its financial statements.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The approach followed in this Statement generally is consistent with the approach adopted in Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, with modifications to reflect differences between pension benefits and OPEB. Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, addresses financial statement and disclosure requirements for reporting by administrators or trustees of OPEB plan assets or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports. GASB Statement No. 45 is effective for the Agency's fiscal year ending June 30, 2007. The Agency has not yet determined the effect that the adoption of this Statement will have on its financial statements.

Cash and Cash Equivalents

Cash equivalents may include commercial paper, money market funds, repurchase agreements, investment agreements and any other investments, primarily US treasuries and agencies, which have 90 or less days remaining to maturity at the time of purchase.

Investment Securities

The Agency carries investment securities at fair market value and records unrealized gains and losses on investment securities as a result of changes in market valuations.

Summary of Significant Accounting Policies (continued)

Loans Receivable, Net

Loans receivable are carried at their unpaid principal balances, net of an allowance for loan losses, unamortized premiums or discounts and fees.

The allowances for loan losses are established based on management's evaluation of the loan portfolio.

Generally, the Agency provides an allowance for loan losses for multifamily loans after considering the specific known risks: adequacy of collateral and projected cash flows; past experience; amount of federal or state rent subsidies, if any; the status and amount of past due payments, if any; the amount of deferred maintenance, if any; and current economic conditions.

For homeownership and home improvement loans, the Agency establishes varying amounts of reserves depending upon the number of delinquent loans, the number of days delinquent and the type of insurance coverage in force: Federal Housing Administration (FHA) insurance, Rural Development (RD) guarantee, Veterans Administration (VA) guarantee, private mortgage insurance and pool or self-insurance.

Actual losses incurred are charged against the allowance for loan losses; recoveries are added to the allowance for loan losses. Management believes the allowances for loan losses adequately reserve for probable losses inherent in the loan portfolios as of June 30, 2004.

Premiums, discounts or fees resulting from the purchase or origination of mortgage loans at other than face value are amortized over the life of the loans using the effective interest method. Prepayments of mortgages are taken into account in the calculation of the amortization. The amount amortized is included in interest earned on loans.

Interest Receivable on Loans

The Agency accrues interest on its amortizing loans until they become 90 days or more delinquent in the case of multifamily loans, or until they become 'real estate owned' (described below) for all other loans.

Mortgage Insurance Claims Receivable

Mortgages that are FHA insured or VA guaranteed, and for which insurance claims have been filed, are included in this category.

Real Estate Owned

Real estate acquired through foreclosure is recorded at the lower of the investment in the loan, or estimated fair market value less estimated selling costs. These properties may be RD guaranteed, uninsured or have private mortgage insurance.

Bonds Payable, Net

Bonds payable are carried at their unpaid principal balances, net of unamortized premiums, discounts and deferred financing costs. Premiums, discounts and deferred financing costs are amortized using the effective interest method in the Single Family and Residential Housing Finance funds. In the Rental Housing fund, deferred financing costs are amortized using the bonds outstanding method due to the unpredictable nature of prepayments of multifamily loans.

Summary of Significant Accounting Policies (continued)

Interfund Payable (Receivable)

Interfund payable (receivable) primarily reflects pending transfers of cash and assets between funds. The more significant activities that flow through this fund may include funds advanced for purposes of optionally redeeming bonds when economically advantageous, funds advanced for loan warehousing, administrative fees receivable and payable between funds, and certain mortgage payments received but not yet transferred to their respective funds.

Funds Held for Others

Funds held for others are primarily escrow amounts held by the Agency on behalf of multifamily housing developments where the Agency holds the first mortgages. These amounts are held under the terms of the related loans and federal regulations regarding subsidized housing. Investment income relating to these funds is credited directly to the escrow funds; it is not included in the investment income of General Reserve. Also included in funds held for others are funds pending disbursement to HUD, such as McKinney Act savings and Section 8 payments. In addition, investment income on unspent Section 8 funds is credited directly to Funds Held For Others and not included in the investment income of Federal Appropriated.

Restricted by Bond Resolution

Restricted by Bond Resolution Net Assets represents those assets restricted within the respective bond resolution due to the specific provisions of the bond resolutions.

Restricted by Covenant

Restricted By Covenant Net Assets represents those assets in General Reserve and those assets that were otherwise available to be transferred to General Reserve. Under the Agency's bond resolutions, the Agency covenants that it will use the assets in General Reserve only for the administration and financing of programs in accordance with the policy and purpose of the MHFA enabling legislation, including reserves for the payment of bonds and notes and of loans made from the proceeds thereof, and shall accumulate and maintain therein such balance of funds and investments as will be sufficient for the purpose. The Agency's Board is responsible for establishing the investment guidelines for these funds.

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as restricted by law.

Invested in Capital Assets

This represents the balance of capital assets, net of depreciation. No related debt exists.

Agency-wide Total

The Agency-wide Total columns reflect the totals of the similar accounts of the various funds. Since the assets of certain of the funds are restricted by either the related bond resolutions or legislation, the totaling of the accounts, including assets therein, is for convenience only and does not indicate that the combined assets are available in any manner other than that provided for in either the bond resolutions or the legislation for the separate funds or groups of funds. The totals for fiscal year 2003 are for comparative purposes only.

Administrative Reimbursement

The largest source of funding for the Agency's administrative operations is a monthly transfer from each of the bond funds to General Reserve based on adjusted assets. Adjusted assets are defined as total assets plus the reserve for loan loss plus unearned discounts on loans minus the proceeds of short-term debt minus premiums on loans.

For programs funded by state appropriations, the Agency recovers the cost of administering the programs to the extent of interest earnings on the appropriations.

Summary of Significant Accounting Policies (continued)

For programs funded by federal appropriations, the Agency recovers the cost of administering programs through an approved federal indirect cost recovery rate applied to direct salary disbursements. Certain other direct costs are also recovered. Total direct and indirect costs recovered from the federal government in the amount of $686,000 are reflected as administrative reimbursement revenues in the Agency-wide statement of activities.

Administrative reimbursements in the amount of $13,663,000 between the Agency's funds have been eliminated from the respective administrative reimbursement revenues and expenses line items for purposes of presentation in the Agency-wide statement of activities.

Fees Earned and Other Income

Fees earned and other income consists mainly of fees related to the financing and administration of Section 8 properties, including administration of a HUD-owned Section 8 portfolio, fees in connection with operating the Low Income Housing Tax Credits program, private contributions restricted to use in the Agency's Homeownership Education, Counseling and Training Program and application fees for administering the Class 4(d) Real Estate Tax Assessment Legislation. Fees earned and other income is recorded as it is earned.

Reduction in Carrying Value of Certain Low Interest Rate Deferred Loans

The carrying value of certain Housing Affordability Fund loans, Endowment Fund loans and State Appropriated loans which are originated at interest rates ranging from 0%-5%, and for which repayment is deferred for up to 30 years, is written down to zero at the time of origination by providing for a Reduction in Carrying Value of Certain Low Interest Rate Deferred Loans because of the nature of these loans and the risk associated with them. Certain of these loans may be forgiven at maturity.

Other Changes

The Agency utilizes the Other Changes section of the Statement of Revenues, Expenses and Changes in Net Assets to describe various transfers between funds.

Non-operating Transfer of Assets Between Funds

Non-operating transfers occur as a result of bond sale contributions related to new debt issues, the annual transfer of assets to maintain the Housing Endowment Fund requirement, periodic transfers to bond funds to fulfill bond resolution requirements and periodic transfers from the bond funds of assets in excess of the bond resolution requirements.

Non-Cash Activities

Transfers from loans receivable to mortgage insurance claims receivable and real estate owned for fiscal year 2004 were $.74 million and $5.70 million, for Residential Housing Finance and Single Family, respectively.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Related Party Transactions

The Alternative Loan Fund in Residential Housing Finance continues to reflect outstanding advances made in fiscal year 1997 for the purpose of optionally redeeming bonds in Rental Housing. The advances were made in order to take advantage of economically favorable conditions for redeeming the bonds. The advances continue to be repaid according to the original debt repayment schedule. The advances are recorded in Interfund Payable (Receivable).

Summary of Significant Accounting Policies (continued)

Reclassifications

Certain amounts in the financial statements for the prior year have been reclassified to conform with the present year presentation.

Income Taxes

The Agency, as a component unit of the State of Minnesota, is exempt from federal and state income taxes. Accordingly, no provision for income taxes is necessary.

Rebateable Arbitrage

Arbitrage earnings that are owed to the United States Treasury are recorded in Accounts Payable and based on estimated calculations performed by an independent valuation specialist on an ongoing basis.

Cash, Cash Equivalents and Investment Securities

Cash and cash equivalents are stated at cost which approximates market and are composed of the following at June 30, 2004 (in thousands):

Cash and Cash Equivalents

Funds	Deposits	Repurchase Agreements	Investment Agreements	Combined Totals
General Reserve	$ 827	$ 3,980	$ —	$ 4,807
Rental Housing	—	6,871	36,402	43,273
Residential Housing Finance	5,915	64,486	559,516	629,917
Single Family	8,541	19,790	233,661	261,992
State Appropriated	—	6,256	—	6,256
Federal Appropriated	1,656	2,528	—	4,184
Agency-wide Totals	$16,939	$103,911	$829,579	$950,429

Deposits may consist of commercial paper for General Reserve, State Appropriated and Federal Appropriated and cash awaiting investment for the remainder of the funds. The commercial paper is held by the Agency's agent. Cash awaiting investment consists of interest earned on investments received too late on the last day of the fiscal year to be invested and loan servicer deposits in transit.

Repurchase agreements are collateralized at 102% of loan value with US treasury and agency securities. Generally, repurchase agreements mature in one week or less. At June 30, 2004, the collateral for the repurchase agreements in General Reserve, State Appropriated, Federal Appropriated and bond funds is held by a third-party agent.

Generally, investment agreements are uncollateralized, interest-bearing contracts with financial intermediaries with variable liquidity features, which require a one-day to two-week notice for deposits and/or withdrawals, and are invested in accordance with the restrictions specified in the various bond funds. As of June 30, 2004, all the investment agreement providers have a Standard & Poor's long-term credit rating of "AA–" or higher and a Moody's long-term credit rating of "Aa3" or higher. Substantially all of the agreements contain "termination" clauses so that the Agency may withdraw funds early if credit ratings deteriorate below specified levels and collateral is not provided.

Cash, Cash Equivalents and Investment Securities (continued)

Investments consist of those permitted by the various bond resolutions, state law and Board policy. Investment securities are recorded at fair market value and are composed of the following at June 30, 2004 (in thousands):

Investment Securities

	Fair Market Value		
Funds	US Treasuries, US Agencies and Municipals, at Amortized Cost	Unrealized Appreciation (Depreciation) in Fair Market Value	Estimated Market Value
General Reserve	$115,059	$ 96	$115,155
Rental Housing	38,543	228	38,771
Residential Housing Finance	141,808	1,085	142,893
Single Family	11,946	589	12,535
State Appropriated	69,434	(214)	69,220
Federal Appropriated	6,527	(18)	6,509
Agency-wide Totals	$383,317	$1,766	$385,083

US treasury, US agency and municipal securities in General Reserve, State Appropriated and Federal Appropriated are held by the Agency's agent in the name of the State of Minnesota. US treasury, US agency and municipal securities in the remainder of the funds are held by the Agency's trustee in the Agency's name.

Net realized gain on sale of investment securities of $2.026 million is included in interest earned on investments.

Certain balances are required to be maintained under the various bond resolutions. These balances represent debt service and insurance reserves. The required balances at June 30, 2004 are as follows (in thousands):

Funds	Amount
Rental Housing	$22,319
Residential Housing Finance	12,536
Single Family	29,586
Totals	$64,441

Loans Receivable, Net

Loans receivable, net at June 30, 2004 consist of (in thousands):

Funds	Outstanding Principal	Allowance for Loan Losses	Unamortized Discounts and Fees	Loans Receivable, Net
General Reserve	$ —	$ —	$ —	$ —
Rental Housing	237,604	(7,871)	(1,111)	228,622
Residential Housing Finance	645,155	(8,420)	(3,372)	633,363
Single Family	529,517	(109)	(6,589)	522,819
State Appropriated	30,146	(1,053)	—	29,093
Federal Appropriated	—	—	—	—
Agency-wide Totals	$1,442,422	$(17,453)	$(11,072)	$1,413,897

Substantially all loans in the table above are secured by first or second mortgages on the real property. Mortgage loans in the Single Family fund and homeownership first mortgage loans in the Residential Housing Finance fund (see following table) are largely insured by the FHA, VA, or RD. Insurance minimizes, but does not completely eliminate, loan losses. Mortgage loans in the Single Family fund are also protected by an insurance reserve fund.

Loans Receivable, Net (continued)

In addition to the loans in the table above, certain loans are originated at interest rates ranging from 0%-5% and repayment is deferred for up to 30 years. These loans are generally in either a second or lower mortgage position or may be unsecured. Given the nature of these loans and the risk associated with them, at the time of origination they are fully reserved resulting in a net carrying value of zero. During fiscal year ended June 30, 2004, the amount of these loans originated was $1.385 million in the Housing Affordability Fund, $3.655 million in the Homeownership Endowment Fund, $2.322 million in the Multifamily Endowment Fund and $47.714 million in State Appropriated. These loans are excluded from the tables above and below, as they are fully reserved.

Loans receivable, net in Residential Housing Finance at June 30, 2004 consist of a variety of loans as follows (in thousands):

Description	Net Outstanding Amount
Home Improvement Endowment Fund:	
Home Improvement loans, generally secured by a second mortgage	$ 89,157
Homeownership Endowment Fund:	
Homeownership, first mortgage loans	8,307
Other homeownership loans	1,480
Multifamily Endowment Fund:	
Multifamily, generally subordinated mortgage loans reserved at 100%	—
Residential Housing Finance Bonds:	
Homeownership, first mortgage loans	360,672
Alternative Loan Fund, Housing Investment Fund (Pool 2):	
Homeownership, first mortgage loans	8,789
Multifamily, first mortgage loans	14,322
Alternative Loan Fund, Housing Affordability Fund (Pool 3):	
Multifamily, first mortgage loans	119,927
Multifamily, subordinated mortgage loans reserved at 100%	—
Homeownership, first mortgage loans	30,709
Residential Housing Finance Totals	$633,363

By statute, the Agency is limited to financing real estate located within the State of Minnesota. Collectibility depends on local economic conditions.

Other Assets

Other assets, including receivables, at June 30, 2004 consist of the following (in thousands):

Funds	Receivables Due from the Federal Government	Other Assets and Receivables	Total
General Reserve	$1,135	$ 3	$1,138
Rental Housing	—	8	8
Residential Housing Finance	73	425	498
Single Family	—	5	5
State Appropriated	—	250	250
Federal Appropriated	1,139	84	1,223
Agency-wide Totals	$2,347	$775	$3,122

Bonds Payable, Net

Bonds payable, net at June 30, 2004 are as follows (in thousands):

Funds	Outstanding Principal	Unamortized Deferred Finance and Issuance Costs	Net Unamortized Premium	Unamortized Deferred Gain	Bonds Payable, Net
Rental Housing	$ 221,685	$ (4,739)	$ —	$(18)	$ 216,928
Residential Housing Finance	935,210	(4,714)	3,497	—	933,993
Single Family	700,410	(6,742)	—	—	693,668
Totals	$1,857,305	$(16,195)	$3,497	$(18)	$1,844,589

Outstanding principal of bonds payable at June 30, 2004 are as follows (in thousands):

Series	Interest Rate	Maturity	Original Amount	Outstanding Amount
Rental Housing Bonds				
1995 Series C-2	5.00% to 5.95%	2004-2015	$ 38,210	$ 17,710
1995 Series D	5.15% to 6.00%	2004-2022	234,590	108,870
1996 Series A	5.15% to 6.10%	2004-2027	2,820	2,575
1997 Series A	4.85% to 5.875%	2004-2028	4,750	4,365
1998 Series A	5.375%	2028	5,505	5,505
1998 Series B	6.60%	2019	4,180	3,570
1998 Series C	4.30% to 5.20%	2004-2029	2,865	2,665
1999 Series A	4.05% to 5.10%	2004-2024	4,275	3,865
1999 Series B	4.90% to 6.15%	2004-2025	3,160	2,780
2000 Series A	5.35% to 6.15%	2008-2030	9,290	8,095
2000 Series B	5.90%	2031	5,150	4,980
2001 Series A	4.50% to 5.35%	2012-2033	4,800	4,725
2002 Series A	1.75% to 4.05%	2004-2014	27,630	25,725
2003 Series A	4.55% to 4.95%	2018-2045	12,770	12,770
2003 Series B	4.15% to 5.08%	2013-2031	1,945	1,945
2003 Series C-1	4.35% to 5.20%	2013-2034	2,095	2,095
2003 Series C-2	1.80%	2005	100	100
2004 Series A	1.60% to 5.00%	2005-2035	9,345	9,345
			373,480	221,685
Residential Housing Finance Bonds				
1995 Series A	5.00% to 5.85%	2004-2017	53,645	24,410
2002 Series A	4.75% to 5.30%	2012-2019	14,035	6,755
2002 Series B	3.35% to 5.65%	2004-2033	59,650	31,980
2002 Series A-1	4.20% to 4.90%	2012-2019	6,860	6,860
2002 Series B-1	2.40% to 5.35%	2004-2033	25,760	25,505
2002 Series C	1.20%	2005	24,285	24,285
2002 Series D	1.25%	2005	11,230	11,230
2002 Series E	4.30% to 5.00%	2013-2020	12,805	12,725
2002 Series F	2.35% to 5.40%	2004-2032	52,195	51,555
2002 Series G	2.15%	2004	37,470	37,470
2002 Series H	3.88% to 4.93%	2007-2012	20,000	20,000
2003 Series A	1.40% to 4.25%	2005-2034	40,000	40,000
2003 Series B	Variable	2033	25,000	25,000
2003 Series D	1.40%	2005	36,240	36,240
2003 Series E	1.50%	2005	64,975	64,975
2003 Series F	1.00%	2004	39,840	39,840

Bonds Payable, Net (continued)

Series	Interest Rate	Maturity	Original Amount	Outstanding Amount
Residential Housing Finance Bonds (continued)				
2003 Series G	1.00%	2004	$ 24,845	$ 24,845
2003 Series H	1.00%	2004	38,610	38,610
2003 Series I	1.85% to 5.25%	2005-2035	25,000	25,000
2003 Series J	Variable	2033	25,000	25,000
2003 Series K-1	2.25%	2006	24,150	24,150
2003 Series K-2	2.25%	2006	20,045	20,045
2003 Series L-1	2.35%	2006	21,600	21,600
2003 Series L-1	2.35%	2006	111,515	111,515
2003 Series M-1	1.20%	2004	43,545	43,545
2003 Series M-2	1.20%	2004	10,000	10,000
2004 Series A	3.20% to 4.25%	2011-2018	22,480	22,480
2004 Series B	1.40% to 5.00%	2005-2033	94,620	94,620
2004 Series C	4.70%	2035	14,970	14,970
			1,000,370	935,210
Single Family Mortgage Bonds				
1992 Series C-2	6.15%	2023	12,185	2,235
1992 Series D-2	5.35% to 5.95%	2004-2017	26,740	8,460
1992 Series H	6.50%	2026	23,410	18,390
1992 Series I	5.85% to 6.25%	2004-2015	16,365	8,905
1993 Series D	6.40%	2027	17,685	5,640
1993 Series F	6.25%	2020	9,500	2,615
1994 Series D	4.80% to 5.00%	2004-2005	91,660	10,565
1994 Series E	4.70% to 5.90%	2004-2025	31,820	14,105
1994 Series N	6.45%	2025	18,770	1,975
1994 Series O	6.45%	2012	11,580	1,605
1994 Series P	6.45%	2021	21,150	3,510
1994 Series T	5.30% to 6.125%	2004-2017	16,420	3,665
1995 Series B	6.40% to 6.55%	2017-2027	35,815	12,405
1995 Series D	6.40% to 6.45%	2015-2025	40,160	13,335
1995 Series G	7.20% to 8.05%	2004-2012	8,310	1,750
1995 Series H	6.40%	2027	19,240	6,115
1995 Series I	6.35%	2017-2018	7,450	2,365
1995 Series J	5.00% to 6.10%	2004-2019	16,065	4,740
1995 Series K	6.20%	2020	1,495	555
1995 Series L	6.25%	2027	12,950	4,820
1995 Series M	4.90% to 5.875%	2004-2017	32,025	13,560
1996 Series A	6.375%	2028	34,480	7,725
1996 Series B	6.35%	2018-2019	7,990	3,950
1996 Series C	5.30% to 6.10%	2004-2015	12,345	4,145
1996 Series D	5.25% to 6.00%	2004-2017	23,580	5,315
1996 Series E	6.25%	2022-2023	14,495	4,415
1996 Series F	6.30%	2026-2028	18,275	5,575
1996 Series G	6.25%	2026-2028	41,810	11,295
1996 Series H	6.00%	2021	13,865	3,745
1996 Series I	7.04% to 8.00%	2004-2017	14,325	3,305
1996 Series J	5.60%	2021	915	360
1996 Series K	4.40% to 5.40%	2004-2017	9,280	4,845
1997 Series A	5.05% to 5.95%	2004-2017	22,630	8,360

Bonds Payable, Net (continued)

Series	Interest Rate	Maturity	Original Amount	Outstanding Amount
Single Family Mortgage Bonds (continued)				
1997 Series B	6.20%	2021	$ 9,180	$ 4,340
1997 Series C	6.25%	2029	27,740	5,005
1997 Series D	5.80% to 5.85%	2019-2021	15,885	7,195
1997 Series E	5.90%	2029	23,495	6,145
1997 Series F	7.03% to 7.25%	2004-2007	11,620	1,230
1997 Series G	5.20% to 6.00%	2004-2018	40,260	16,855
1997 Series H	6.15%	2019	11,455	205
1997 Series I	5.50%	2017	9,730	6,225
1997 Series K	5.75%	2026-2029	22,700	14,515
1997 Series L	6.60% to 6.80%	2004-2007	9,550	1,865
1998 Series A	4.65% to 5.20%	2008-2017	5,710	3,050
1998 Series B	4.55% to 5.50%	2004-2029	17,030	7,070
1998 Series C	4.34% to 5.25%	2004-2017	21,775	12,195
1998 Series E	5.40%	2025-2030	30,500	20,715
1998 Series F-1	4.45% to 5.45%	2004-2017	10,650	5,580
1998 Series G-1	5.60%	2022	6,150	3,815
1998 Series H-1	5.65%	2031	14,885	9,240
1998 Series F-2	4.65% to 5.70%	2004-2017	11,385	7,970
1998 Series G-2	6.00%	2022	6,605	5,415
1998 Series H-2	6.05%	2031	15,965	13,100
1999 Series B	5.00% to 5.25%	2013-2020	18,865	13,685
1999 Series C	4.25% to 4.85%	2004-2024	21,960	9,455
1999 Series D	5.45%	2026-2031	23,975	17,430
1999 Series H	5.30% to 5.80%	2011-2021	16,350	11,225
1999 Series I	4.70% to 6.05%	2004-2031	34,700	18,685
1999 Series J	5.00%	2017	4,745	4,375
1999 Series K	3.20% to 5.35%	2004-2033	44,515	40,390
2000 Series A	5.25% to 5.85%	2009-2020	18,650	12,400
2000 Series B	5.15% to 5.55%	2004-2024	16,580	8,135
2000 Series C	6.10%	2030-2032	30,320	20,160
2000 Series F	Variable	2031	20,000	19,410
2000 Series G	4.25% to 5.40%	2008-2025	39,990	36,645
2000 Series H	3.90% to 5.50%	2004-2023	32,475	27,025
2000 Series I	4.85% to 5.80%	2004-2019	20,185	16,805
2000 Series J	5.40% to 5.90%	2023-2030	29,720	24,965
2001 Series A	5.35% to 5.45%	2017-2022	14,570	12,705
2001 Series B	4.10% to 5.675%	2004-2030	34,855	27,835
2001 Series E	2.00% to 4.90%	2006-2035	23,000	23,000
			1,452,510	700,410
Combined Totals			$2,826,360	$1,857,305

The Agency uses special and optional redemption provisions to retire certain bonds prior to their stated maturity from unexpended bond proceeds and revenues in excess of scheduled debt service resulting primarily from loan prepayments.

All bonds are subject to optional redemption after various dates at an amount equal to 100% to 102% of the unpaid principal and accrued interest as set forth in detail within the applicable series resolution.

Bonds Payable, Net (continued)

Annual debt service requirements to maturity for bonds as of June 30, 2004, excluding bonds called for early redemption prior to June 30, 2004, as listed below, are as follows (in thousands):

	Rental Housing Bonds		Residential Housing Finance Bonds	
Fiscal Year	**Principal**	**Interest**	**Principal**	**Interest**
2005	$ 9,265	$11,733	$234,530	$23,605
2006	10,120	11,285	108,685	22,512
2007	10,615	10,812	185,430	21,240
2008	11,205	10,297	13,395	16,991
2009	12,040	9,738	8,715	16,598
2010-2014	68,045	38,410	65,350	75,516
2015-2019	47,150	22,261	59,770	61,051
2020-2024	25,000	10,412	68,955	46,936
2025-2029	14,360	5,638	82,275	31,945
2030-2034	7,340	2,555	92,220	13,897
2035-2039	2,985	1,232	15,885	672
2040-2044	2,890	573	—	—
2045-2049	670	25	—	—

	Single Family Mortgage Bonds		Combined Totals	
Fiscal Year	**Principal**	**Interest**	**Principal**	**Interest**
2005	$ 18,705	$ 38,305	$262,500	$ 73,643
2006	19,305	37,386	138,110	71,183
2007	14,910	36,546	210,955	68,598
2008	15,095	35,780	39,695	63,068
2009	15,640	35,013	36,395	61,349
2010-2014	105,270	160,271	238,665	274,197
2015-2019	133,660	125,977	240,580	209,289
2020-2024	143,310	87,309	237,265	144,657
2025-2029	165,420	42,853	262,055	80,436
2030-2034	67,175	6,764	166,735	23,216
2035-2039	1,920	95	20,790	1,999
2040-2044	—	—	2,890	573
2045-2049	—	—	670	25

The principal due for convertible option bonds (COBs) is reflected in subsequent fiscal year columns of the table above based on the mandatory tender dates of those bonds. This presentation does not alter the expectation that these bonds will be remarketed long-term at or prior to their mandatory tender date. COBs are secured by investment contracts that are structured to provide liquidity at each debt service payment date in the amounts due to bondholders. Such investment contracts are included in cash and cash equivalents on the statement of net assets.

Residential Housing Finance Bonds, 2003 Series B and J, accrue interest at a rate that changes each week. The rate is determined through a weekly remarketing of the outstanding bonds. Future interest due for these series, as displayed above in the annual debt service requirements table, is based upon the rate as of June 30, 2004. As rates vary, variable rate bond interest payments will vary. The associated interest rate swaps are not included in the annual debt service requirements table. See the Swap Payments and Associated Debt table below to view those amounts.

The Single Family Bonds, 2000 Series F accrue interest at a variable rate that is recalculated for each calendar month. The rate is the sum of the monthly London Interbank Offered Rate plus 0.30% per annum provided that the rate may not be more than 11.00% per annum. This series was placed with a single investor. Future interest due for this series, as displayed above in the annual

Bonds Payable, Net (continued)

debt service requirements table, is based upon the calculated rate as of June 30, 2004. As rates vary, variable rate bond interest payments will vary.

The income and assets of each of the bond funds are pledged for the payment of principal and interest on the bonds issued, and to be issued, by the respective programs. The bond resolutions contain covenants that govern the respective programs financed thereby and require the Agency to maintain certain reserves and meet certain reporting requirements. The Agency believes that as of June 30, 2004, it is in compliance with those covenants and the assets of all funds and accounts in the bond funds equaled or exceeded the requirements as established by the respective bond resolutions.

As of or after June 30, 2004, the Agency called for early redemption of certain bonds that are described under Subsequent Events.

Interest Rate Swaps

Objective of Swaps

During fiscal 2004 the Agency entered into interest rate swap agreements in connection with issuing variable rate mortgage revenue bonds. The intentions of the swaps were to create synthetic fixed rate debt at a lower interest rate than achievable from long-term fixed rate bonds and to achieve the Agency's goal of lending to low- and moderate-income, first-time home buyers at below market, fixed interest rates.

Swap Payments and Associated Debt

Using rates as of June 30, 2004, debt service requirements of the Residential Housing Finance outstanding variable rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows (in thousands). As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year	Principal	Interest	Interest Rate Swaps, Net	Total
2005	$ —	$ 538	$1,347	$ 1,885
2006	—	555	1,293	1,848
2007	—	555	1,264	1,819
2008	—	555	1,228	1,783
2009	—	555	1,195	1,750
2010-2014	—	2,775	5,514	8,289
2015-2019	—	2,770	4,859	7,629
2020-2024	6,115	2,728	4,133	12,976
2025-2029	21,400	1,926	2,150	25,476
2030-2034	22,485	607	360	23,452

Terms of Swaps

The terms, including the fair values and counterparty credit ratings of the outstanding swaps as of June 30, 2004, are contained in the table below. The initial notional amounts of the swaps match the principal amounts of the associated debt. The Agency's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in outstanding principal amounts of the associated bond series. The Agency has purchased the cumulative right, based upon a 300% Bond Market Association (BMA) prepayment rate on the underlying mortgage loans, to further reduce the notional balances of the swaps as necessary and the right to terminate the outstanding swap balances at par value on or after the 20 year anniversary dates of the swaps.

Interest Rate Swaps (continued)

Associated Bond Series	Current Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date	Counterparty Credit Rating
RHFB 2003B	$25,000,000	July 23, 2003	3.532%	65% of one-month LIBOR* plus 0.23% per annum	$ 1,127,840	January 1, 2033	Aa2**/ AA+***
RHFB 2003J	$25,000,000	October 15, 2003	4.183%	65% of one-month LIBOR* plus 0.23% per annum	$(1,037,619)	July 1, 2033	Aa2**/ AA+***
Total	$50,000,000				$ 90,221		

*London Interbank Offered Rate

**Moody's Investors Service, Inc.

***Standard & Poor's Inc.

Swap Valuation

The Fair Values presented above were estimated by the Agency's counterparty to the swaps. The valuation was determined by calculating the difference between the present values of each fixed cash flow to be paid and each floating cash flow to be received by the Agency based upon the current market yield curve. The present value factors for each cash flow are based on the implied zero coupon yield curve determined by current market rates. Additionally, the values of the call options are determined by calculating the present value of each predicted option outcome, whose interest rate prediction variance is determined by current market implied volatility. Together these calculations determine the current fair value of the Agency's swap contracts. The Fair Values in the table above represent the termination payments that would have been due had the swaps been terminated as of June 30, 2004. A positive fair value represents money due the Agency by the counterparty upon termination of the swap while a negative fair value represents money payable by the Agency.

Termination Risk

The Agency's swap contracts are based upon the International Swap Dealers Association Master Agreement, which includes standard termination events. The swap contracts may be terminated by either party if the other party fails to perform under the terms of the contract. Upon termination, a payment is due to one party irrespective of causality based upon the fair value of the swap. The potential termination risks to the Agency are the liability for a termination payment to the counterparty or the inability to replace the swap under favorable financial terms. To reduce the Agency's termination risk, the swap contracts limit the counterparty's ability to terminate due to the following Agency actions or events: payment default, other defaults that remain uncured for 30 days after notice, bankruptcy and insolvency.

Credit Risk

The terms of the swaps expose the Agency to potential credit risk with the counterparty upon the occurrence of a termination event. The fair value of a swap represents the Agency's current credit exposure to the counterparty with which the swaps were executed. As of June 30, 2004, the Agency had a net credit risk exposure to its counterparty because the combined swap position had a positive net fair value. The swap agreements contain varying collateral requirements based upon counterparty credit rating and the fair value of the swap. These bi-lateral requirements are established to mitigate potential credit risk exposure. These requirements were met as of June 30, 2004.

Amortization Risk

The Agency may incur amortization risk because prepayments from the mortgage loan portfolio may cause the outstanding amount of variable rate bonds to decline faster than the amortization of the swap. To ameliorate amortization risk, call options were structured within the

Interest Rate Swaps (continued)

swaps to enable the Agency to closely manage the outstanding balances of variable rate bonds and notional swap amounts. Additionally, the Agency may terminate the swaps at market value at any time.

Basis Risk

The Agency incurs the potential risk that the variable interest payments on its bonds will not equal the variable interest receipts from its swaps. This basis risk exists because the Agency pays a variable rate on its bonds based on the weekly tax-exempt BMA rate but under the terms of its swaps receives a variable rate based upon the one-month, taxable LIBOR rate. Basis risk will vary over time due to inter-market conditions. As of June 30, 2004, the interest rate on the Agency's variable rate debt was 1.10% per annum while the interest rate on the swaps was 0.96% per annum. In order to reduce the cumulative effects of basis risk, the variable rate determination structure for interest receipts within the swap is based upon a regression analysis of the long-term relationship between these two interest rate indices.

Tax Risk

The structure of the variable interest rate payments the Agency receives from its swap contracts are based upon the historical long-term relationship between taxable and tax-exempt short-term interest rates. Tax risk represents a risk that may arise due to a change in the tax code that may fundamentally alter this relationship. The Agency has chosen to assume this risk because it was economically unfeasible to transfer to the swap counterparty.

Accounts Payable and Other Liabilities

Accounts payable and other liabilities at June 30, 2004 consist of the following (in thousands):

Funds	Arbitrage Rebate Payable to the Federal Government	Accrued Salaries, Compensated Absences and Employee Benefits	Other Liabilities and Accounts Payable	Total
General Reserve	$ —	$1,904	$1,765	$ 3,669
Rental Housing	404	—	14	418
Residential Housing Finance	1,054	—	1,294	2,348
Single Family	8,674	—	43	8,717
State Appropriated	—	—	754	754
Federal Appropriated	—	—	1,966	1,966
Agency-wide Totals	$10,132	$1,904	$5,836	$17,872

The amount of arbitrage rebate payable that is not due within one year in Rental Housing is $.404 million, in Residential Housing Finance is $1.054 million and in Single Family is $5.059 million, for a total of $6.517 million.

Interfund Balances

Interfund balances displayed as Interfund Payable (Receivable) at June 30, 2004 consist of the following (in thousands):

		Due from						
	Funds	General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
Due to	General Reserve	$ —	$ 5	$ —	$ —	$109	$214	$ 328
	Rental Housing	—	—	—	—	—	—	—
	Residential Housing Finance	4,036	21,145	—	—	—	—	25,181
	Single Family	—	—	—	—	—	—	—
	State Appropriated	—	—	390	1,167	—	—	1,557
	Federal Appropriated	—	—	—	—	—	—	—
	Agency-wide Totals	$4,036	$21,150	$390	$1,167	$109	$214	$27,066

The $21.145 million due to Residential Housing Finance reflects advances made to Rental Housing in fiscal 1997 and accrued interest on those advances. The advances were made to take advantage of economically favorable conditions for optionally redeeming bonds in Rental Housing. Repayment of the advances continues according to the original debt repayment schedule. The portion that will not be repaid within one year is $20.182 million.

All remaining balances resulted from the time lag between the dates that (1) interfund goods or services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

Interfund transfers recorded in Interfund Payable (Receivable) for the year ended June 30, 2004 consist of the following (in thousands):

		Transfer from						
	Funds	General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
Transfer to	General Reserve-administrative reimbursement	$—	$1,491	$3,383	$ 4,653	$4,188	$665	$14,380
	Rental Housing	—	—	—	—	—	—	—
	Residential Housing Finance	—	1,676	—	64,236	209	—	66,121
	Single Family	—	—	—	—	—	—	—
	State Appropriated	—	—	—	334	—	—	334
	Federal Appropriated	—	620	—	—	—	—	620
	Agency-wide Totals	$—	$3,787	$3,383	$69,223	$4,397	$665	$81,455

Interfund transfers recorded in Interfund Payable (Receivable) are used to move loan payments that were deposited for administrative convenience in a fund not holding the loans, to make payments for administrative reimbursements due the General Reserve from the other funds, to pay for loans transferred between funds, and to move payments from Rental Housing to Residential Housing Finance due on outstanding loans between those funds.

Interfund Transfers (continued)

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds for the year ended June 30, 2004, consist of the following (in thousands):

		Transfer from						
	Funds	General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
Transfer to	General Reserve	$ —-	$—	$ —	$ —	$—	$—	$ —
	Rental Housing	—	—	358	—	—	—	358
	Residential Housing Finance	2,856	—	—	11,918	—	—	14,774
	Single Family	—	—	—	—	—	—	—
	State Appropriated	—	—	—	—	—	—	—
	Federal Appropriated	—	—	—	—	—	—	—
	Agency-wide Totals	$2,856	$—	$358	$11,918	$—	$—	$15,132

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds normally result from bond sale contributions to new debt issues in other funds, the transfer of assets to maintain the Housing Endowment Fund requirement and periodic transfers from the bond funds of assets in excess of bond resolution requirements.

Net Assets

Restricted by Bond Resolution

Restricted by Bond Resolution Net Assets represents those funds restricted within the respective bond resolution due to the specific provisions of the bond resolutions.

Restricted by Covenant

In accordance with provisions of the respective bond resolutions, the Agency may transfer money from bond funds to General Reserve. The Agency has pledged to deposit in General Reserve any such funds transferred from the bond funds, except for any amounts as may be necessary to reimburse the state for money appropriated to restore a deficiency in any debt service reserve fund. The Agency further covenants that it will use the money in General Reserve only for the administration and financing of programs in accordance with the policy and purpose of the MHFA enabling legislation, including reserves for the payment of bonds and of loans made from the proceeds thereof, and will accumulate and maintain therein such a balance of funds and investments as will be sufficient for that purpose. All interfund transfers are approved by the Board of the Agency.

In order to provide financial security for the Agency's bondholders, and to provide additional resources for housing loans to help meet the housing needs of low- and moderate-income Minnesota residents, the Agency's Board adopted the investment guidelines in the following table. These guidelines are periodically evaluated in consideration of changes in the economy and in the Agency's specific risk profile. The following table describes total net assets restricted by covenant, including the balances to be maintained according to the Agency's Board guidelines, as of June 30, 2004, in thousands.

Net Assets (continued)

Net Assets — Restricted By Covenant	Certain Balances Maintained According to Agency's Board Guidelines	Unrealized Appreciation in Fair Market Value of Investments	Total Net Assets Restricted by Covenant
Housing Endowment Fund (Pool 1), General Reserve			
An amount equal to 2% of gross loans outstanding (excluding loans reserved 100% and appropriated loans) will be invested in short term, investment grade paper at market interest rates	$ 28,245	$ —	$ 28,245
Unrealized appreciation in fair market value of investments	—	96	96
Subtotal, Housing Endowment Fund (Pool 1), General Reserve	28,245	96	28,341
Housing Investment Fund (Pool 2), Residential Housing Finance			
An amount equal to 5% of bonds outstanding less the Housing Endowment Fund (Pool 1) will be invested in intermediate to long term, investment grade housing loans, as defined by the Agency, at interest rates which could be up to 3% below market.	64,620	—	64,620
Unrealized appreciation in fair market value of investments	—	698	698
Subtotal, Housing Investment Fund (Pool 2), Residential Housing Finance	64,620	698	65,318
Housing Affordability Fund (Pool 3), Residential Housing Finance			
Funds in excess of 5% of bonds may be used for administration of housing programs, contributions to bond issues, early bond redemptions, and low interest rate loans with higher than ordinary risk factors	183,598	—	183,598
Unrealized appreciation in fair market value of investments	—	200	200
Subtotal, Housing Affordability Fund (Pool 3), Residential Housing Finance	183,598	200	183,798
Agency-wide Total	$276,463	$994	$277,457

The Housing Endowment Fund (Pool 1) is maintained in the Restricted By Covenant Net Assets of General Reserve. The Housing Investment Fund (Pool 2) and the Housing Affordability Fund (Pool 3) are maintained in the Restricted by Covenant Net Assets of Residential Housing Finance fund.

In connection with self-insuring certain single family loans, the Agency has agreed to maintain General Reserve net assets of at least 125% of the Single Family Mortgage bond resolution insurance reserve. The amount aggregated $10.718 million at June 30, 2004.

Net Assets (continued)

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as net assets restricted by law.

Defined Benefit Pension Plan

The Agency contributes to the Minnesota State Retirement System (System), a multiple-employer public employee retirement system, which provides pension benefits for all permanent employees.

Employees who retire at "normal" retirement age or, for those hired on or before June 30, 1989, at an age where they qualify for the "Rule of 90" (i.e., at an age where age plus years of service equals or exceeds 90) are entitled to an unreduced monthly benefit payable for life. For those hired on or before June 30, 1989, normal retirement age is age 65, or age 62 with 30 years of service. For those hired after June 30, 1989, normal retirement age is the Social Security retirement age. The monthly benefit is calculated according to the "step formula" for anyone retiring under the Rule of 90. For those hired on or before June 30, 1989 and not retiring under the Rule of 90, the monthly benefit is calculated according to the step formula or the "level formula," whichever provides the largest benefit. For those hired after June 30, 1989, the monthly benefit is calculated according to the level formula. Under the step formula, an employee earns a 1.2% credit for each of the first 10 years of employment and a 1.7% credit for each year thereafter. The monthly benefit is then determined by applying the sum of these credits to the average monthly salary earned during the employee's five years of greatest earnings. Under the level formula the monthly benefit is computed just as it is under the step formula except that an employee earns a 1.7% credit for each year of employment, not just for those years beyond the first 10. A reduced benefit is available to those retiring at age 55 with at least three years of service. With 30 years of service, a reduced benefit is available at any age to those hired on or before June 30, 1989. The System also provides death and disability benefits. Benefits are established by Minnesota state law.

The Agency's pension contribution to the System for the year ending June 30, 2004 was $435 thousand.

Details of the benefit plan are provided on a System-wide basis. The Agency portion is not separately determinable. The funding status of the System's benefit plan is summarized as follows.

Schedule of Funding Progress
(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Actual Covered Payroll (Previous FY)	UAAL as a % of Covered Payroll
07/01/03	$7,757,292	$7,830,671	$ 73,379	99.06%	$2,009,975	3.65%
07/01/02	7,673,028	7,340,397	(332,631)	104.53	1,915,350	(17.37)
07/01/01	7,366,673	6,573,193	(793,480)	112.07	1,834,042	(43.26)

Schedule of Employer Contributions
(dollars in thousands)

Year Ended June 30	Actuarially Required Contribution Rate	Actual Covered Payroll	Actual Member Contributions	Annual Required Contribution	Actual Employer Contribution*	Percentage Contributed
2003	8.34%	$2,009,975	$83,850	$83,782	$80,399	95.96%
2002	6.79	1,915,350	79,487	50,565	76,614	151.52
2001	7.12	1,834,042	74,364	56,220	73,362	130.49

*This includes contributions from other sources (if applicable).

The information presented is as of July 1, 2003, which is the latest actuarial information available.

Defined Benefit Pension Plan (continued)

The above summarizes the defined benefit pension plan. Please refer to the June 30, 2003, Minnesota State Retirement System Comprehensive Annual Financial Report for a more comprehensive description. A copy of the System's comprehensive annual financial report can be obtained by contacting Minnesota State Retirement System, 60 Empire Drive, Suite 300, St. Paul, Minnesota 55103 or calling (651) 296-2761.

Commitments

As of June 30, 2004, the Agency had committed the following amounts for the purchase or origination of future loans or other housing assistance amounts (in thousands):

Funds	Amount
General Reserve	$ —
Rental Housing	8,640
Residential Housing Finance	127,001
Single Family	—
State Appropriated	92,153
Federal Appropriated	18,468
Agency-wide Totals	$246,262

The Agency has cancelable lease commitments for office facilities and parking on a long-term basis. Lease expense for the fiscal year ended June 30, 2004 was $.916 million. Commitments for future minimum lease payments under cancelable leases for office facilities and parking are (in thousands):

	Fiscal Year:					
	2005	2006	2007	2008	2009	Total
Amount:	$943	$967	$983	$913	$858	$4,664

The Agency has in place a $15 million revolving line of credit with Wells Fargo Bank, N.A. that expires on December 31, 2004 and may be renewed annually for additional one-year periods through December 31, 2007. The line of credit agreement requires the Agency to maintain certain asset levels and meet certain reporting requirements. At June 30, 2004 there was no balance outstanding. The line of credit activity for the year ended June 30, 2004, is summarized as follows (in thousands):

Beginning Balance	Draws	Repayments	Ending Balance
$8,563	$6,470	$(15,033)	$0

The Agency is a party to various litigation arising in the ordinary course of business. While the ultimate effect of such actions cannot be predicted with certainty, the Agency expects that the outcome of these matters will not result in a material adverse effect on General Reserve's financial position or results of operations.

Subsequent Events

On May 27, 2004 the Board of the Agency approved series resolutions authorizing the issuance of $102,345,000 bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Residential Housing Bonds, 2004 Series E, 2004 Series F, and 2004 Series G were delivered on July 22, 2004.

On June 24, 2004 the Board of the Agency approved the remarketing of $38,610,000 convertible option Residential Housing Bonds 2003 Series H for the purpose of providing funds for certain of the Agency's homeownership programs. The Residential Housing Bonds, 2003 Series H were remarketed on July 22, 2004.

On June 24, 2004 the Board of the Agency approved series resolutions authorizing the issuance of $41,510,000 convertible option bonds. The Residential Housing Bonds, 2004 Series H were delivered on July 22, 2004.

Subsequent Events (continued)

The Agency called for early redemption subsequent to June 30, 2004 the following bonds:

Program Funds	Retirement Date	Original Par Value
Residential Housing Finance	July 1, 2004	$ 8,290,000
Single Family	July 1, 2004	64,655,000
Rental Housing	July 26, 2004	1,640,000
Residential Housing Finance	August 20, 2004	1,670,000
Single Family	August 20, 2004	47,620,000
Rental Housing	September 16, 2004	870,000

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
General Reserve and Bond Funds
Five Year Financial Summary (in thousands)
Fiscal Years 2000 – 2004

		2000	2001	2002	2003	2004
Loans Receivable, net	Multifamily programs	$ 392,010	$ 353,893	$ 337,087	$ 348,196	$ 362,870
	Homeownership programs	1,226,528	1,228,105	1,212,436	1,009,937	932,777
	Home improvement programs	99,770	108,860	104,537	92,345	89,157
	Total	$1,718,308	$1,690,858	$1,654,060	$1,450,478	$1,384,804
Bonds Payable, net	Multifamily programs	$ 337,013	$ 325,314	$ 267,739	$ 246,701	$ 216,928
	Homeownership programs	1,637,944	1,640,348	1,668,449	1,579,978	1,607,661
	Home improvement programs	—	—	—	20,000	20,000
	Total	$1,974,957	$1,965,662	$1,936,188	$1,846,679	$1,844,589
Loans purchased or originated in year	Multifamily programs	$ 25,419	$ 14,143	$ 18,341	$ 58,607	$ 50,509
	Homeownership programs	165,703	165,633	229,603	145,748	216,109
	Home improvement programs	29,965	40,027	37,281	35,391	34,981
	Total	$ 221,087	$ 219,803	$ 285,225	$ 239,746	$ 301,599
Net Assets	Total net assets	$ 536,748	$ 582,674	$ 612,361	$ 648,459	$ 666,978
	Percent of total assets	20.0%	21.5%	22.6%	24.6%	25.2%
Revenues over Expenses	Revenues over expenses for the year[1]	$ 19,452	$ 42,023	$ 29,687	$ 36,098	$ 18,519

Notes:

(1) Includes Administrative Reimbursement revenue received from State Appropriated fund of $5,618 in 2002, $4,497 in 2003, and $4,131 in 2004. This revenue item was included in revenues over expenses beginning in 2002 due to GASB 34 presentation requirements.

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Net Assets (in thousands)
General Reserve and Bond Funds
June 30, 2004 (with comparative totals for June 30, 2003)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Assets	Cash and cash equivalents	$ 4,807	$ 43,273	$ 629,917	$261,992
	Investment securities	115,155	38,771	142,893	12,535
	Loans receivable, net	—	228,622	633,363	522,819
	Interest receivable on loans	—	1,697	2,887	2,811
	Interest receivable on investments	1,128	1,141	913	243
	Mortgage insurance claims receivable	—	—	6	757
	Real estate owned	—	—	251	1,342
	Capital assets, net	1,774	—	—	—
	Other assets	1,138	8	498	5
	Total assets	$124,002	$313,512	$1,410,728	$802,504
Liabilities	Bonds payable, net	$ —	$216,928	$ 933,993	$693,668
	Interest payable	—	4,945	12,141	19,197
	Accounts payable and other liabilities	3,669	418	2,348	8,717
	Interfund payable (receivable)	3,708	21,150	(24,791)	1,167
	Funds held for others	86,510	—	—	—
	Total liabilities	93,887	243,441	923,691	722,749
	Commitments and contingencies				
Net Assets	Restricted by bond resolution	—	70,071	237,921	79,755
	Restricted by covenant	28,341	—	249,116	—
	Invested in capital assets	1,774	—	—	—
	Total net assets	30,115	70,071	487,037	79,755
	Total liabilities and net assets	$124,002	$313,512	$1,410,728	$802,504

2004 Total General Reserve and Bond Funds	2003 Total General Reserve and Bond Funds
$ 939,989	$ 845,334
309,354	327,971
1,384,804	1,450,478
7,395	8,032
3,425	4,253
763	584
1,593	899
1,774	733
1,649	1,755
$2,650,746	$2,640,039
$1,844,589	$1,846,679
36,283	43,464
15,152	13,768
1,234	1,325
86,510	86,344
1,983,768	1,991,580
387,747	382,253
277,457	265,473
1,774	733
666,978	648,459
$2,650,746	$2,640,039

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Revenues, Expenses and Changes in Net Assets (in thousands)
General Reserve and Bond Funds
Year ended June 30, 2004 (with comparative totals for the year ended June 30, 2003)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Revenues	Interest earned on loans	$ —	$16,982	$ 31,989	$ 46,325
	Interest earned on investments	617	3,098	15,499	18,034
	Administrative reimbursement	14,349	—	—	—
	Fees earned and other income	7,631	933	319	—
	Unrealized gains (losses) on securities	(2,042)	(1,473)	(2,735)	(2,772)
	Total revenues	20,555	19,540	45,072	61,587
Expenses	Interest	—	15,196	23,064	51,254
	Loan administration and trustee fees	—	246	2,651	2,405
	Administrative reimbursement	—	1,496	3,383	4,653
	Salaries and benefits	13,131	—	—	—
	Other general operating	5,782	—	252	—
	Reduction in carrying value of certain low interest rate deferred loans	—	(226)	2,718	—
	Provision for loan losses	—	897	1,255	78
	Total expenses	18,913	17,609	33,323	58,390
	Revenues over (under) expenses	1,642	1,931	11,749	3,197
Other changes	Non-operating transfer of assets between funds	(4,036)	358	15,596	(11,918)
	Change in net assets	(2,394)	2,289	27,345	(8,721)
Net Assets	Total net assets, beginning of year	32,509	67,782	459,692	88,476
	Total net assets, end of year	$30,115	$70,071	$487,037	$ 79,755

2004 Total General Reserve and Bond Funds	2003 Total General Reserve and Bond Funds
$ 95,296	$109,067
37,248	35,943
14,349	14,372
8,883	8,909
(9,022)	5,394
146,754	173,685
89,514	101,023
5,302	5,948
9,532	9,174
13,131	13,124
6,034	6,543
2,492	(331)
2,230	2,106
128,235	137,587
18,519	36,098
—	—
18,519	36,098
648,459	612,361
$666,978	$648,459

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds
Year ended June 30, 2004 (with comparative totals for the year ended June 30, 2003)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Cash flows from operating activities	Principal repayments on loans	$ —	$ 27,622	$ 97,365	$ 234,931
	Investment in loans	—	(21,860)	(254,070)	(25,669)
	Interest received on loans	—	16,815	31,403	43,818
	Other operating	—	—	(252)	—
	Fees and other income received	7,628	933	427	—
	Salaries, benefits and vendor payments	(18,391)	(249)	(2,262)	(2,419)
	Administrative reimbursement from funds	14,379	(1,491)	(3,383)	(4,653)
	Interest transferred to funds held for others	(2,649)	—	—	—
	Deposits into funds held for others	35,907	—	10	—
	Disbursements made from funds held for others	(35,747)	—	(4)	—
	Interfund transfers and other assets	(352)	—	222	(333)
	Net cash provided (used) by operating activities	775	21,770	(130,544)	245,675
Cash flows from noncapital financing activities	Proceeds from sale of bonds	—	13,485	727,941	23,000
	Principal repayment on bonds	—	(43,740)	(313,223)	(408,710)
	Interest paid on bonds and notes	—	(12,824)	(17,226)	(59,488)
	Financing costs paid related to bonds issued	—	(315)	(4,117)	(294)
	Interest paid/received between funds	—	(1,541)	1,541	—
	Principal paid/received between funds	—	(135)	135	—
	Premium paid on redemption of bonds	—	(392)	—	(1,026)
	Agency contribution to program funds	—	358	11,560	(11,918)
	Transfer of cash between funds	(2,856)	—	2,856	—
	Net cash provided (used) by noncapital financing activities	(2,856)	(45,104)	409,467	(458,436)
Cash flows from investing activities	Investment in real estate owned	—	—	(49)	(692)
	Interest received on investments	4,003	3,338	14,668	15,615
	Proceeds from sale of mortgage insurance claims/real estate owned	—	—	708	5,885
	Proceeds from maturity, sale or transfer of investment securities	40,080	32,729	142,136	20,798
	Purchase of investment securities	(39,343)	(29,155)	(151,060)	(5,753)
	Purchase of loans between funds	—	—	(64,236)	64,236
	Net cash provided (used) by investing activities	4,740	6,912	(57,833)	100,089
	Net increase (decrease) in cash and cash equivalents	2,659	(16,422)	221,090	(112,672)
Cash and cash equivalents	Beginning of year	2,148	59,695	408,827	374,664
	End of year	$ 4,807	$ 43,273	$ 629,917	$ 261,992

2004 Total General Reserve and Bond Funds	2003 Total General Reserve and Bond Funds
$ 359,918	$ 439,075
(301,599)	(239,746)
92,036	108,770
(252)	(628)
8,988	8,731
(23,321)	(24,649)
4,852	5,494
(2,649)	(3,468)
35,917	34,451
(35,751)	(42,385)
(463)	(66)
137,676	285,579
764,426	446,823
(765,673)	(538,270)
(89,538)	(99,038)
(4,726)	(2,066)
—	—
—	—
(1,418)	(1,103)
—	—
—	—
(96,929)	(193,654)
(741)	(429)
37,624	39,379
6,593	4,034
235,743	280,742
(225,311)	(329,935)
—	—
53,908	(6,209)
94,655	85,716
845,334	759,618
$ 939,989	$ 845,334

(Continued)

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds (continued)
Year ended June 30, 2004 (with comparative totals for the year ended June 30, 2003)

Reconciliation of revenues over expenses to net cash provided (used) by operating activities

	General Reserve	Bond Funds: Rental Housing	Bond Funds: Residential Housing Finance	Bond Funds: Single Family
Revenues over expenses	$ 1,642	$ 1,931	$ 11,749	$ 3,197
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:				
Amortization of premiums (discounts) and fees on loans	—	(164)	326	(3,626)
Depreciation	481	—	—	—
Loss on disposal of fixed assets	—	—	—	—
Realized gains on sale of securities, net	(80)	(134)	(159)	(1,650)
Unrealized losses (gains) on securities, net	2,042	1,473	2,735	2,772
Provision for loan losses	—	897	1,255	78
Reduction in carrying value of certain low interest rate and/or deferred loans	—	(226)	2,718	—
Capitalized interest on loans and real estate owned	—	(73)	(44)	(420)
Interest earned on investments	(537)	(3,141)	(16,181)	(16,619)
Interest expense on bonds and notes	—	15,196	23,064	51,254
Changes in assets and liabilities:				
Decrease (increase) in loans receivable, excluding loans transferred between funds	—	5,762	(156,705)	209,262
Decrease (increase) in interest receivable on loans	—	70	(867)	1,434
Increase in arbitrage rebate liability	—	177	841	340
Interest transferred to funds held for others	(2,649)	—	—	—
Increase (decrease) in accounts payable	41	(4)	496	(15)
Increase (decrease) in interfund payable, affecting operating activities only	30	5	207	(333)
Increase (decrease) in funds held for others	160	—	6	—
Other	(355)	1	15	1
Total	(867)	19,839	(142,293)	242,478
Net cash provided (used) by operating activities	$ 775	$21,770	$(130,544)	$245,675

2004 Total General Reserve and Bond Funds	2003 Total General Reserve and Bond Funds
$ 18,519	$ 36,098
(3,464)	(1,369)
481	539
—	571
(2,023)	(1,187)
9,022	(5,394)
2,230	2,106
2,492	(331)
(537)	(348)
(36,478)	(36,201)
89,514	101,023
58,319	199,329
637	1,320
1,358	1,545
(2,649)	(3,468)
518	(753)
(91)	738
166	(7,934)
(338)	(705)
119,157	249,481
$137,676	$285,579

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